

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 000-50296

**Intellicheck, Inc.**

(Exact name of Registrant as specified in its charter)

Delaware

11-3234779

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer Identification No.)

535 Broad Hollow Road, Suite B51, Melville, NY 11747

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (516) 992-1900

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.001 par value  
(Title of Class)

NYSE AMERICAN  
(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated  
filer

Accelerated  
filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting  
company

Emerging Growth  
Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the Issuer: \$28,476,656 (based upon the closing price of Issuer's Common Stock, \$0.001 par value, as of the last business day of the Issuer's most recently completed second fiscal quarter (June 30, 2017)).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Common Stock, \$0.001 Par Value  
(Title of Class)

15,608,943  
(No. of Shares Outstanding at March 22, 2018)

DOCUMENTS INCORPORATED BY REFERENCE: Proxy for Annual Meeting of Stockholders May 9, 2018

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## PART I

### Item 1. Business

#### OVERVIEW

We were originally incorporated in the state of New York in 1994 as Intelli-Check, Inc. In August 1999, we reincorporated in Delaware. On March 14, 2008, our corporation was renamed Intelli-Check - Mobilisa, Inc. after the consummation of the merger with Mobilisa, Inc. (“Mobilisa”) (references to “Intelli-Check” in this annual report refer to the Company prior to the merger with Mobilisa). At the closing of the merger, our headquarters were moved to Mobilisa’s offices in Port Townsend, Washington. On October 27, 2009, we made a further change in our name to Intellicheck Mobilisa, Inc. On May 4, 2017, with the approval of our shareholders, we changed our name to Intellicheck, Inc. (“Intellicheck,” “we,” “our,” “us,” or “the Company”). On August 31, 2009, the Company acquired 100% of the common stock of Positive Access Corporation (“Positive Access”), a developer of driver license reading technology. The acquisition of Positive Access expanded the Company’s technology portfolio and related product offerings and allowed the Company to reach a larger number of customers through Positive Access’s extensive distribution network. Effective March 19, 2018, we relocated our corporate headquarters from Jericho, New York to Melville, New York.

We are a technology company engaged in developing, integrating and marketing identity authentication systems for various applications including mobile, handheld and integrated systems for the government, military and commercial markets. Our products include ID-Check, Retail ID™ and Age ID™ a patented technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from U.S. and Canadian jurisdictions designed to improve the customer experience for the financial, hospitality and retail sectors and Defense ID® and Law ID™ systems, advanced ID card access control products currently protecting military and federal locations.

We plan to expand our business in the near term by pursuing a strategy designed to increase market share in our existing markets and expand into new product markets that are expected to benefit from enhanced safety, regulatory compliance and fraud prevention. For example, we have extended our technologies into online applications to provide enhanced safety, regulatory compliance and fraud prevention for the billions of transactions that occur online each day. We are also developing biometric and other enhancements to several of our current product offerings.

We sold our wireless enterprise assets on August 31, 2015 to focus the Company’s resources on our core identity authentication business.

We plan to leverage our intellectual property in the markets we are targeting to strengthen our competitive position.

Our primary businesses include Identity Systems products, which include commercial applications of identity card reading authentication and government sales of defense security and identity card applications.

Our technologies address problems such as:

- **Commercial Fraud and Risk Management** – which may lead to economic losses to merchants from check cashing, debit and credit card, e-commerce as well as other types of fraud such as identity theft that principally use fraudulent identification documents as proof of identity;
- **Instant Credit Card Approval** – retail stores use our technology to scan a driver license at a kiosk or at the Point Of Sale (POS) and send the information to a credit card underwriter to get instant approval for a loyalty-branded credit card. This technique protects consumer data and is significantly more likely to result in a completed transaction compared to in-store personnel asking customers to fill out a paper form;
- **Unauthorized Access** – our systems and software are designed to increase security and deter terrorism at airports, shipping ports, rail and bus terminals, military installations, high profile buildings and infrastructure where security is a concern; and
- **Inefficiencies Associated With Manual Data Entry** – by reading encoded data contained in the bar code and magnetic stripe of an identification card with a quick swipe or scan of the card, where permitted by law, customers are capable of accurately and instantaneously inputting information into forms, applications and the like without the errors associated with manual data entry.

## **IDENTITY CARD READING AND VERIFICATION SECTOR**

### **Background on Identification Documentation**

#### Driver license

The driver license is the most widely used form of government issued photo identification in North America. The Real ID Act, which became federal law in May 2005, recognizes that the driver license is also a quasi-identification card. In addition to its primary function, the driver license is used to verify identity for social services, firearm sales, check cashing, credit card issuance and use and other applications. Our technology can read the electronically stored information on all currently issued driver licenses (even those that do not comply with the AAMVA/ANSI/ISO standards). Today, all 50 states, the District of Columbia and all 13 Canadian provinces/territories electronically store information on their driver license.

#### Non-driver identification card

Each U.S. and Canadian Jurisdiction also provides a non-driver identification card as an alternative form of identification for those unable to acquire a driver license. These identification cards are issued with most of the same data found on a driver license. Military documents also provide a means of identification and contain encoded data as well. Since driver licenses are the most widely used form of legally acceptable government documentation, we refer to all these identification documents as “driver licenses.” Our ID√Check® software can perform its function on all these forms of identification.

### **Current Challenges Associated with Verifying Identification Documents**

The high-tech revolution has created a major problem for those who rely on identification documents. In an age where scanners, computers and color printers are commonplace, fake IDs of the highest quality are easily obtainable from many locations including college campuses and from multiple sites on the Internet. These fakes appear so real, even law enforcement agencies have encountered difficulty distinguishing them from legally issued documents. Additionally, these high-tech devices can easily alter properly issued ID. Therefore, anyone can gain access to a false identity that gives them the ability, in a commercial transaction, to present fake and stolen credit cards or checks that are supported by false identification. Additionally, starting with only a fraudulent driver license, an individual may be able to create multiple identities, commit fraud, buy age restricted products such as alcohol and tobacco while underage, evade law enforcement and engage in other criminal activities, such as:

- committing identity theft;
- improperly boarding airplanes;
- committing credit card, debit card and check cashing fraud;
- illegally purchasing firearms;
- unlawfully committing pharmacy fraud, including false narcotic prescriptions;
- committing refund fraud;
- gaining entrance to high profile buildings and sensitive infrastructures,
- engaging in medical fraud;
- purchasing age restricted products such as alcohol and tobacco while under age; and
- obtaining welfare or other government benefits.

Given the ease with which identification can be falsified, simply looking at a driver license may not be sufficient to verify age or identity and determine if it is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that a document verification system which can accurately read the electronically stored information is needed. We possess patented technology that provides an analysis of the data contained on the encoded formats of these identification documents by reading and analyzing the encoded format on the magnetic stripe or bar code on the driver license and comparing it against known standards.

## **OUR PRODUCTS AND SERVICES**

Our Products and Services are generally sold as Software as a Service (“SaaS”) where customers pay for our cloud based service.

### **Identity Systems Products and Services**

Our Identity Systems are marketed to the Commercial and Government identification sectors.

## **Commercial Identification**

### **ID√Check® Family — Solutions and Benefits**

Our patented ID√Check® technology is our advanced document verification software. ID√Check® is contained in our software products and is capable of reading and verifying in one swipe or scan the encoded format contained on U.S. and Canadian driver licenses, state issued non-driver identification cards, and military IDs. Our technology has the ability to verify the encoded formats on all currently encoded documents, even those that do not comply with the standards of the American Association of Motor Vehicle Administrators (“AAMVA”), the American National Standards Institute (“ANSI”) and the International Standards Organization (“ISO”).

We believe that ID√Check® and our family of software solutions contain the most advanced, reliable and effective technology, providing users with an easy, reliable, and cost-effective method of document and age verification. We have received/acquired encoding formats from multiple sources. This information, combined with our patented technology, enables all our ID√Check® software products to read, decode, process and verify the encoded formats on driver licenses. As jurisdictions change their documents and guidelines, we believe our software can be adapted to these changes.

The ID√Check® technology is embedded in many of our product lines including Retail ID™, Law ID™, Defense ID®, Age ID™, Guest ID™, Access ID™, and TWIC ID™ some of which are discussed below.

ID√Check® software does not require a connection to a central database to operate, thus negating privacy concerns. Many of our products have the ability to operate add-on peripherals such as printers, fingerprint readers and other devices.

The ID√Check® process is quick, simple and easy to use. After matching the driver license photograph to the person presenting the document for identification, the user simply scans or swipes the driver license through a data capture device. The software quickly determines if:

- the format of the document is valid;
- the document has been altered or is fake, by displaying the parsed, encoded data for comparison with the printed information;
- the document has expired; and
- the encoded data contains a date of birth equal to or greater than the legal age to purchase age restricted products, such as alcohol and tobacco.

Then, the ID√Check® software applications can:

- respond to the user by displaying the format verification result and the parsed information;
- save information that is permissible by law to memory; and
- print a record of the transaction including the verification results if a printer is part of the hardware configuration.

### **ID√Check® SDK**

Our software product, ID√Check® SDK, is designed for software developers that wish to incorporate our proprietary ID√Check® technology into their applications. We currently have multiple license agreements with third parties for integration and sub-licensing of our software applications into their core applications. The SDK is available for multiple platforms such as Microsoft Windows, Windows Mobile, AIX, certain versions of Linux and is also offered as a SaaS product that provides a platform independent & centralized update solution for quicker and easier integration. It can easily be ported to other platforms as the need arises. New integrations are being sold as hosted cloud based SaaS products and the customer purchases monthly, quarterly, annually or longer subscriptions for use of the software.

### **Retail ID™**

Our Retail ID™ application is a proven identity authentication solution that can instantly and accurately authenticate identification documents such as a driver license. This solution is designed to deliver better service, increase loyalty and credit card programs and reduce fraud. Retail ID™ reduces liability risks and ensures compliance by checking all retrieved data against each state’s privacy laws and regulatory requirements.

### **Retail ID Online™**

Retail ID Online™ instantly and accurately authenticates an on-line user’s identification documents such as a driver license and helps eliminate fraud associated with online transactions. With online fraud growing daily, this new product is the right solution at the right time.

### Retail ID Mobile™

Retail ID Mobile™ provides the fraud reduction benefits of Retail ID™, without the time and expense of integrating the Retail ID™ application into the customer's point of sale system. With Retail ID Mobile™, the customer simply downloads the application to a mobile device such as a tablet or smartphone and instantly begin receiving the benefits from Retail ID's fraud reduction capabilities.

### Age ID™

Age ID™ is the designation for multiple hand-held devices that we offer our customers. The form-factor is a small, lightweight mobile computer with a durable housing design that has 2-D bar code and magnetic stripe reading capabilities. By allowing the user to move between locations, Age ID™ products provide the ability to check the encoded format of ID documents at multiple entry points. It additionally has the capability of providing a yes/no response when used for age verification purposes.

### Guest ID™

Guest ID™ is a software application that speeds up check-in and ID verification at hotels and motels. This product enhances user productivity by automating data entry thus improving accuracy. Guest ID™ speeds up the hotel check-in process and is incorporated into legacy Property Management Systems.

### ID√Check® POS

ID√Check® POS is a software application that runs on multiple VeriFone devices, such as the Omni 37xx series. Our software uses both the onboard magnetic stripe reader and an optional external 2-D bar code reader that plugs into an open port on the back of the unit. The terminal has an integrated, high-speed thermal printer. The VeriFone devices are multi-application terminals that allow the ID√Check® software to run side by side with credit card processing software as well as other value-added software applications certified by VeriFone. We have been designated as a VeriFone value added partner.

### ID√Check® BHO

This software product, formerly called the Web Form Filler product, is a Browser Helper Object ("BHO") for the Microsoft Browser. The BHO allows our customers to seamlessly integrate our core ID√Check® technology into their web based applications. The BHO can be programmed through a series of drop down menus to populate driver license data in the fields of specific web pages based on web page URLs and web page field names. The technology also provides the ability to check the encoded formats of ID documents.

### ID√Check® PC

ID√Check® PC is a standalone software solution that is designed to provide the features of ID√Check® for Windows based platforms. It allows the user to instantly view data from government issued IDs such as driver licenses and contains features such as recurring entry and age verification.

### State Aware Software

State Aware Software provides or restricts information that is electronically scanned from an ID based on the electronic reading laws according to the state in which the ID is scanned. For example, scanning an ID in New Hampshire for law enforcement purposes is allowed, whereas electronically scanning an ID for a mailing list is not allowed. With all the various uses of scanning and verifying an ID, it is important for responsible users to be aware of the different state laws. State Aware Software incorporates each state's requirements around electronic capture of ID barcode data directly into hosted ID Check software.

### Data Collection Devices

Our software products are designed for use with multiple data collection devices, which are commercially available in various compact forms and may contain either one or both of 2-D bar code and magnetic stripe readers. These devices enable our software applications to be used on a variety of commercially available data processing devices, including credit card terminals, PDAs, tablets, laptops, desktops and point-of-sale terminals. Many of these devices contain an electronic serial number (ESN) to prevent unauthorized use of our software.

## Instant Credit Application Kiosk Software Applications

These are custom software applications that Intellicheck Mobilisa has developed for a variety of major financial service companies and retail stores. The software installed on multiple kiosk devices provides the customers of the major financial service companies and retail stores with the ability to perform in-store instant credit approval on these devices. The hardware platforms, on which the software applications run, range from stationary devices to handhelds to tablet PCs. The process involves the swiping or scanning of the driver license to verify the encoded format and after verification, the information parsed from the encoded data is populated into the proper fields on the application displayed on the kiosk. The applicant then completes the application by entering the remaining required information that is not encoded on the driver license, such as social security and telephone numbers. The software application then sends the data to the financial service company's backend "decisioning" tool for credit approval. If approved, the applicant is granted instant credit which can then be used to make purchases.

## Upgrade Capability

Our ID√Check® Products and related databases are constantly updated to stay current with identification formats and new forms of ID.

## Government Identification

### Defense ID® System

Our Defense ID® System offers law enforcement personnel and military security officers additional information for protecting their facilities. The Defense ID System uses rugged, handheld, mobile devices and desktop visitor/vendor approval workstations to read barcodes, magnetic stripes, RFID (radio frequency identification) and OCR (optical character recognition) codes printed on current forms of identification cards. By scanning and comparing the information contained on the ID card to over 100 databases, Defense ID® can immediately determine if the card has been reported lost or stolen, the individual's identity information matches watch lists or law enforcement databases, or if they are on an authorized roster of previously-cleared personnel.

### Law ID™

A mobile app for bona fide law enforcement officers that performs real time queries against State DMV, State Criminal Justice Databases and FBI NCIC (National Crime Information Center) records. Every day officers turn their backs on potentially dangerous persons. Now, the Law Enforcement Officer ("LEO") can instantly have DOL/DMV, State and Federal search results instantly while maintaining subject visibility. Without the need to return to a vehicle to enter driver license data or to contact dispatch by radio, the app uses the Smart Phone camera to extract the 2D barcode information from driver licenses and other identification documents, instantly returning to the officer query results from DOL/DMV, State and Federal criminal justice databases. These results include DOL/DMV photos, vehicle/weapon registration information and a wealth of additional information that may be critical to officer safety.

### TWIC ID™

Provides ports and facilities with an innovative, integrated, efficient way to validate ID credentials of individuals requesting entry to secure areas. Our TWIC reading software and hardware meets all TSA requirements for portable readers and is listed on the TSA's QTL (Qualified Technology List). The TWIC™ ID Reader is proving to be an instrumental component to port security as we continue to help many U.S. ports of all sizes in further protecting their facilities.

### Visitor Center (IM 3000)

The Visitor Center is a component of our Defense ID® system and makes it faster and easier to process visitors and vendors. Using the visitor center system, it pre-populates fields by scanning the government-issued ID, performs a real-time background check utilizing over 100 databases to verify the individual is not on a wanted list and if the individual has been pre-approved to access the facility or building. The Visitor Center can then take photos and prints a visit pass or new local ID card, all in a matter of seconds.

## Upgrade Capability

Like our ID√Check® products, our Defense ID® products are constantly updated to stay current with identification formats and new forms of ID. In addition, we continuously update the databases related to lost or stolen cards, watch lists and law enforcement database updates, and authorized rosters of cleared personnel. Our Defense ID® Systems are maintained via annual subscriptions that are purchased by our customers.

## **STRATEGY**

Our objective is to be a leading security company providing world class solutions in the identity sector. These solutions include our commercial identity systems focusing on work-flow, productivity enhancement, fraud protection and risk management segments; our government identity systems focusing on access control, vendor validation, and suspect identification. Key elements of our strategy are as follows:

### **Commercial Systems**

Productivity Enhancement. We market our technology as a key productivity enhancement tool. Our patented ID\Check<sup>®</sup> software can add functionality to virtually any given software application to automatically populate fields within a given form, when a government-issued photo ID is presented. Our ability to correctly read and authenticate all U.S. jurisdictions, coupled with our patented technology, is a key differentiator from our competitors. The automation resulting from the intelligence added to the form dramatically increases throughput and data integrity, and it significantly enhances the customer's experience.

Develop Additional Strategic Alliances with Providers of Security Solutions. We have entered into strategic alliances to utilize our systems and software as the proposed or potential enrollment application for their technologies and to jointly market these security applications with multiple biometric companies: Lenel, AMAG Technology, Inc., in the defense industry; Zebra Technologies hardware manufacturers; and Idemia Identity & Security USA. We are an associate member of AAMVA and a member of AAMVA's Industry Advisory Board. We believe these relationships will broaden our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional providers of security solutions.

Strengthen Sales and Marketing Efforts. We intend to capitalize on the growth in demand for document verification and productivity enhancement by continuing to market and support our systems and software. Our sales and marketing departments are organized by geographic area to provide focus and proximity to build solid long-term relationships. Our recent focus has been on SaaS license arrangements in the financial services, retail, and hospitality services industries.

Enter into Additional Licensing Agreements. We intend to continue to license our software for use with a customer's system. We are currently licensing our ID\Check<sup>®</sup> SDK software product for Windows, Windows CE, Windows Mobile and other operating system platforms and intend to similarly continue to license our ID\Check<sup>®</sup> PC software solutions. Our software is intended to be used with a compatible hardware device. We have entered into multiple licensing agreements to date.

Protect Intellectual Property. We intend to protect our intellectual property portfolio to preserve value and obtain favorable settlements where warranted.

### **Government Identity Systems**

Product Enhancement. Due to the success of Defense ID<sup>®</sup> in the military and government industry sectors, we have enhanced our product line to support other entities such as law enforcement, port security and commercial installations. We continue our ongoing efforts to research and implement the use of new identification cards, additional databases and upgraded equipment form factors to increase the efficiency and performance of the system.

TWIC Program. We were on the first list of ICE (Initial Capability Evaluation) readers and will continue to provide our software on additional hardware platforms to address the unique needs of each port and facility. We have combined our Defense ID<sup>®</sup> and TWIC reader applications to provide customers with the benefits of each product in a single device and are the first company to have readers listed on the TSA's QTL (Qualified Technology List).

Strengthen Sales and Marketing Efforts. As the need for access control systems continues to grow, our experienced sales and marketing departments are adjusting to target new sectors. Sales and marketing materials are specially designed to clearly outline the capabilities of the system and how it is valuable to each of these specific sectors. We have sales staff and office locations on the East and West Coasts, which allows a quick response to questions and personalized assistance for each customer based on location.

Additional Access to Multiple Databases. We continue to increase the data source information accessed through our Defense ID<sup>®</sup> system. This is achieved by increasing the capabilities of our internally-developed scraping programs for publicly-available information as well as by negotiating additional data source agreements with various law enforcement and government agencies. In addition to these general databases, we can customize databases for each individual customer based on information provided by the customer.



## **Our Revenue Sources**

We derive our revenue from the following sources:

- Sales of our systems by both our own direct sales force and marketing partners;
- Per transaction or subscription fees (SaaS) from the licensed use of our technology;
- Revenue sharing and marketing arrangements through strategic alliances and partnerships;
- Sale of software upgrades and extended maintenance programs; and

## **Our Target Industry Sectors**

### **Commercial Identity Systems**

The use of false identification cards, primarily driver licenses and non-driver identification cards, to engage in commercial fraud, to gain access to unauthorized areas and to gain entry to critical infrastructure is all too common and the problem is growing with each passing day. Given the ease with which identification can be falsified, we believe that simply looking at a driver license is not sufficient to verify identity and determine if such an identification card is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that what they need is a document authentication system that can accurately read the electronically stored information. We target the industry sectors that would most benefit from our systems and software.

We also market our products to opportunities where our ID√Check® technology can be used to enhance productivity. We have made significant progress in the sectors for the retail issuance of instant credit. We believe there are financial benefits and compelling business models for customers in this sector to utilize our technology.

### **Productivity Enhancement**

- Mass merchandisers and retailers
- Banks and other financial institutions
- Credit unions
- Credit card issuers
- Check cashing services
- Auto dealerships and rental car agencies
- Casinos for enrollment of guests
- Hospital patient admissions
- Lodging Industry
- Airlines

### **Commercial fraud protection**

- Mass merchandisers and retailers
- Banks and other financial institutions
- Credit unions
- Credit card issuers
- Check cashing services
- Auto dealerships and rental car agencies
- Casino cage operations
- Hospitals, medical facilities and health plans
- Lodging Industry
- Pharmacies

### **Access control**

- Airports and airlines
- Departments of Motor Vehicles
- Notable buildings
- Court houses
- Nuclear facilities
- Oil refineries and storage facilities
- Prisons
- Law enforcement agencies
- Military establishments
- College campuses
- Department of Homeland Security
- Bus, rail and port facilities

### **Age verification**

- Bars and night clubs
- Convenience stores
- Grocery chains
- Restaurants
- Stadiums and arenas
- Casinos and gaming establishments
- Sellers of sexually explicit material
- Firearm dealers

## Government Identity Systems

Our Defense ID® system is tailored to locations that validate identification cards as a means of access. Historically, the military sector has been the primary focus, followed closely by sea ports, oil refineries and the law enforcement sector. Military bases, for example, are an ideal location for the use of the Defense ID® system because individual ID cards are checked prior to allowing base access and, in most cases, bases issue visitor/vendor passes to individuals needing access that do not possess a military ID.

Because Defense ID® is customizable, it can be used in many different environments. The information provided via instant access to multiple law enforcement databases proves invaluable to gate officers and law enforcement personnel ensuring the security of a facility. Current targets include:

### **Military**

- Army
- Air Force
- Coast Guard
- Military and Veterans Hospitals
- Airports and Seaports
- Navy
- Marines
- Military Academies
- Oil Refineries

### **Law Enforcement/Government**

- FBI
- State & Local Police
- Bureau of Alcohol, Tobacco, Firearms, and Explosives
- Customs
- Department of Homeland Security
- Drug Enforcement Administration
- Local Sheriffs
- Intelligence Agencies
- Department of Transportation
- Border Patrol

## **REPRESENTATIVE CUSTOMERS**

### Commercial Identity Systems

We have generated revenues from our customers from the sale of systems, licensing of software and sale of software upgrades. The following representative customers have used or are using our systems and software for commercial fraud protection and productivity enhancement:

- Fidelity Information Services
- MGM Grand
- Caesar's Palace
- Enterprise
- Toys R Us
- Alliance Data
- Rooms to Go
- Walmart
- Hertz
- Foxwoods Resorts and Casino
- Mohegan Sun Resort Casino
- Barclaycard USA
- JPMorgan Chase
- LL Bean
- Synchrony Financial
- AT&T
- Winn Dixie
- Verizon

The following representative customers and programs have used or are using our systems and software for access control:

- John F. Kennedy International Airport in New York
- O'Hare International Airport in Chicago
- Reagan National Airport in Washington, DC
- New York Stock Exchange
- Fort Sam Houston
- Fort Hood
- Force Protection Industries
- New York Department of Motor Vehicles
- Vermont Department of Motor Vehicles
- Delaware Department of Motor Vehicles
- Port of Houston
- Port of New Orleans
- New Hampshire Dept. of Motor Vehicles
- Port Authority of New York and New Jersey
- Port of Hawaii
- United States Supreme Court
- Registered Traveler Program
- Delaware Department of Motor Vehicles

The following representative customers are using or have used our systems and software for age verification:

- Idaho State Liquor Dispensary
- Sunoco
- Exxon/Mobil franchisees
- Drake Petroleum
- Houston's Restaurants

#### Government Identity Systems

We have generated revenue from our customers from the sale of systems, licensing of software and sale of extended service agreements. The following representative customers have used or are using our systems and software for security and identification purposes.

- The United States Air Force Academy
- Fort Wainwright
- Elmendorf Air Force Base ("AFB")
- Andrews AFB
- Fort Meade
- Fort Belvoir
- USMC Parris Island
- The U.S. Military Academy at West Point
- Bangor Naval Submarine Base
- Fort Jackson
- Fort Leonard Wood
- Fort Benning
- Fort Richardson
- Bolling AFB
- Fort Polk
- Fort Dix
- Yuma Marine Corps Base
- Walter Reed Army Hospital
- McChord AFB
- Claremont County Sheriff Department
- Fort Sill
- 29 Palms
- Camp Atterbury
- Fort Stewart

#### **MARKETING AND DISTRIBUTION**

##### Commercial Identity Systems

Our objective is to become the leading developer and distributor of document and age verification products. To date, our marketing efforts have been through direct sales by our sales and marketing personnel, through resellers and license agreements. We are marketing our products through direct marketing approaches such as web marketing, a small number of select trade shows and well known public interest and trade associations.

We generate revenues from the licensing of our software and the selling of bundled solutions that contain hardware and software. Depending on the specific needs of our clients, we tailor the right solution for them. Our bundled solutions are sold on a SaaS basis.

Our ID√Check® software is available to customers via the cloud (SaaS) and available for Microsoft Windows and Windows Mobile platforms, Android and iOS in addition to devices such as credit card terminals and other operating systems such as Linux. We are marketing our ID√Check® technology to the government, airlines, airports, high profile buildings or infrastructure, mass merchandisers, grocery, convenience and pharmacy chains, casinos and banks.

We have developed a comprehensive marketing plan to build customer awareness and develop brand recognition in our target industry sectors. We promote the advantages and ease of use of our products through:

- Endorsements by nationally known public interest groups and trade associations;
- Trade publications;
- Trade shows;
- Web seminars, as well as our own website; and
- Various conventions and industry specific seminars.

We intend to continue to develop and market other related software applications.

##### Government Identity Solutions

We have sector-specific brochures for each product in our product line for both the military, port and law enforcement sectors that the sales force utilizes when demonstrating the Defense ID® system to potential customers. These brochures serve as a quick reference guide outlining the capabilities of our technology. Once customers have a clear understanding of our products, they can use these brochures to discuss their individual needs and ordering requirements.

When dealing with military and government entities, we must comply with applicable procurement regulations.

In addition to sole source awards, we also respond to Requests for Proposal (“RFPs”) and Requests for Qualifications (“RFQs”) when our technological capabilities meet that of the desired system. In many cases, we are the only company that can meet the requirements in the RFP, which can lead to a quick and easy award.

Also, we have all Defense ID® products, as well as individual labor services, listed on GSA Schedule 70. This makes it possible for government entities to make direct purchases of equipment and services for a pre-negotiated price without having to go through the formal RFP/Bid process.

We have offices in New York and Washington State to fully support our current and potential customers. This makes it easy to schedule and complete installations and maintenance in an efficient, time-conscious manner.

## **MAJOR CUSTOMERS**

Although the composition of our largest customers has changed from year to year, a significant portion of our revenues have been attributable to a limited number of major customers. In 2017, our top ten customers accounted for approximately 57% of total revenues. In 2016, our top ten customers accounted for approximately 50% of total revenues. While we believe that one or more major customers could account for a significant portion of our sales for at least the next two years, we anticipate that our customer base will continue to expand and that in the future we will be less dependent on major customers.

## **REGULATION**

The sale and use of the Company’s Identity System products are not subject to regulation by government authorities. We believe we are currently in compliance with applicable United States, state and local laws and regulations relating to the protection of the environment.

## **COMPETITION**

### **Commercial Identity Systems**

We compete in an industry that is intensely competitive and rapidly changing. Unless a device can read, decode and analyze all the information that is legally permitted to be analyzed, which is electronically stored on a driver license, the user may not obtain accurate and reliable confirmation that a driver license is valid and has not been altered or tampered with. We are aware of several companies that are currently offering products that electronically read and calculate age from a driver license. We have tested and compared some of these products to ID√Check® and believe that our product is superior in quality and functionality. We believe that units unable to read bar codes are at a significant disadvantage because all states and Canadian provinces currently utilize bar codes to encode their driver licenses, as well as all U.S. military IDs and uniformed services cards.

In the government identity sector, there are several companies, including Idemia USA, EID Passport and HID Global that are currently offering products that compete with the Defense ID® system. The U.S. government also has DBIDS and AIE that compete with our products.

We are also aware that Zebra and Honeywell are offering an embedded driver’s license reading solution on a tether scanner.

We have experienced and expect to continue to experience increased competition in the document verification sector. If any of our competitors were to become the industry standard or were to enter or expand relationships with significantly larger companies through mergers, acquisitions or otherwise, our business and operating results could be seriously harmed. In addition, potential competitors could bundle their products or incorporate functionality into existing products in a manner that discourages users from purchasing our products.

## **MANUFACTURING**

We do not manufacture readers or input devices, but use products from several manufacturers. Some of these devices are private labeled and programmed by the supplier to work with our ID√Check® technology. Most of our hardware consists of commercial off-the-shelf (“COTS”) products. We rely on a small number of suppliers to provide our COTS products.

Our government identity systems products are created with COTS items that we customize with software and specialized configurations. All products are customized, assembled, and tested in-house and then installed and placed by our employees in the field.

## **RESEARCH AND DEVELOPMENT**

Our research and development (“R&D”) efforts are mainly concentrated in two areas. The most significant effort is concentrated in the identity sector. We modify existing software applications based on customer’s requirements, which are fee based. In addition, we develop new software solutions and make improvements to existing software platforms, which are funded internally. R&D spending during the years ended December 31, 2017 and 2016 was \$1,916,107 and \$2,405,593, respectively.

## **INTELLECTUAL PROPERTY**

We currently hold twenty-two (22) U.S. patents, two (2) Canadian patents and one (1) United Kingdom patent. At present, we have other patent applications pending in the U.S. Patent and Trademark Office as well as internationally. These patents cover commercially important aspects of our capabilities relating to the authentication and verification of identification documents, and relating to our Defense ID<sup>®</sup> System technology. We will continue to pursue patents for all of our new technologies arising from our research and development efforts.

In January 1999, the U.S. Patent and Trademark Office granted us a patent on our ID√Check<sup>®</sup> software technology. In October 2002, we were granted another patent relating to our document authentication and age verification technology. In January 2009, we were granted another patent that is a continuation of our patents relating to our document authentication and age verification technology. Upon our acquisition of the assets of IDentiScan, we also received equitable ownership and sole ownership rights to its intellectual property, including other patents and patent applications relating to age verification technology.

During 2010, we were granted two additional patents. The first patent was for a software key control for mobile devices. It is used to get a registration key for the parser that is based on the unique internal ID of one mobile device. The Mobile Key Manager communicates with the mobile device, reading its ID, and then requests a registration key specific for that ID from Intellicheck Mobilisa’s server. This server maintains a database of all customers using IDDecode Mobile Parsers, including the number of licenses they have purchased, the latest software version for which they have paid support, and the registration keys and unique device IDs associated with those licenses. The server generates a new registration key unique to the device ID and returns it to the Mobile Key Manager to register that device. In this way, the customer can deploy the IDDecode Mobile Parser to only one mobile device for each parser purchased.

The second patent was related to a document comparison system and reinforces the innovative nature of Intellicheck Mobilisa’s security solutions involving documents. The technology described in the patent relates to a system and method for comparing information contained in at least two documents. Like information on different documents is compared to determine whether the information is the same on each document. For instance, a name contained on an individual’s driver’s license is automatically compared with a name contained on the individual’s airline boarding pass.

In 2011, we were issued another patent. This patent allows for verifying and authenticating the encoded information on driver licenses of all 50 states and other North American driver licenses and allows the information to be electronically transferred in a secure environment to a local or remote jurisdiction for age verification, organ donor, or criminal activity checks critical in fighting both crime and terrorism.

In 2012, we were granted a patent relating to a system and method for comparing information contained in at least two documents, but not limited to just a driver license and passport. This patent compares “like information” on different documents to determine whether the information is the same on each document. As an example, a passport is compared to a boarding pass to determine if “like information” matches, for instance name and birthdate.

We were also granted a patent related to a system that uses environmental information to determine a level of scrutiny that is to be applied to identification information received at a location where user identification is being checked. Depending on the level of scrutiny that is applied and on generated candidate scores, the system will display many potential persons of interest that match the received identification information.

In 2013, we were granted four patents that are continuations of earlier-filed applications we previously filed. One patent is related to a document comparison system that compares information contained in two documents to determine whether the information is substantially identical on each document. An indication is provided as to whether the two documents identify the same entity or do not identify the same entity. The second patent relates to improvements to software key control for mobile devices. The third patent relates to an apparatus for extracting date of birth information from driver’s licenses and displaying a calculated age along with a license background graphic. Finally, the fourth patent is related to a system that uses environmental information to determine a level of scrutiny that is to be applied to identification information received at a location and to display many potential persons of interest that match the received identification information based on the applied level of scrutiny.

In 2014, we were granted one patent that was also a continuation of an earlier-filed application. The patent is related to a document comparison system that compares information contained in two documents to determine whether certain information is substantially identical on each document. The system provides a positive or negative indication as to whether portions of the two documents are substantially identical.

In 2015, we acquired an intellectual property portfolio that includes four patents involving technologies for checking the validity of identification documents using a remote database. Certain patents in this portfolio address the use of biometric information and identification credentials as part of the process to control access to a secured area.

We were also granted two patents in 2015. The first patent is related to a system and method for comparing documents. The second patent is identity matching in response to threat levels.

We own multiple copyrights in the United States, which are effective in Canada and in other major industrial countries. The copyright protection covers software source codes and supporting graphics relating to the operation of ID√Check® and other software products. We also have several trademarks relating to our company, its product names and logos.

In connection with the sales or licensing of our intellectual property, we have entered into an agreement with a former officer, under which we will pay royalties equal to 0.005% of cumulative gross sales for cumulative gross sales of \$2,000,000 to \$52,000,000 and 0.0025% of cumulative gross sales for cumulative gross sales more than \$52,000,000 pertaining to those patents on which this former officer was identified as an inventor. Cumulatively through December 31, 2017 total fees paid under this agreement were approximately \$2,000.

## **EMPLOYEES**

As of March 21, 2018, we had twenty-nine full-time employees. Three are engaged in executive management, thirteen in information technology, ten in sales and marketing and three in administration. All employees are employed “at will.” We believe our relations with our employees are generally positive and we have no collective bargaining agreements with any labor unions.

## **Item 1A. Risk Factors**

### **RISK FACTORS**

#### **Risks Related to Our Business and Industry**

**We have incurred principally losses since inception and losses may continue, which could result in a decline in the value of our securities and a loss of your investment.**

We sustained net losses of \$6,020,505 and \$5,734,681 for the fiscal years ended December 31, 2017 and 2016, respectively, and our accumulated deficit was \$110,422,825 as of December 31, 2017. Since we expect to incur additional expenditures in line with the sales growth of our business, we may not achieve operating profits in the near future. This could lead to a decline in the value of our securities.

**Our proprietary software relies on reference data provided by government and quasi-government agencies. If these governmental and quasi-government agencies were to stop sharing data with us, the utility of our proprietary software would be diminished in those jurisdictions and our business would be damaged.**

Currently, the fifty states, ten Canadian provinces and the District of Columbia, in most instances, conform to the guidelines established by certain organizations responsible for implementing industry standards, cooperate with us by providing sample identification cards so that we may modify all our hardware and software products to read and analyze the encoded information found on such jurisdiction's identification cards. If one or more of these jurisdictions do not continue to provide this reference data, the utility of our proprietary software may be diminished in those jurisdictions.

**Our business strategy exposes us to long sales and implementation cycles for our products.**

Our target customers in the commercial fraud protection, access control and age verification industry sectors include large retailers and government agencies, which typically require longer sales and implementation cycles for our products than do our potential customer base solely interested in age verification, such as restaurant, bar and convenience store operators. The longer sales and implementation cycles for larger retail companies continue to have an adverse impact on the timing of realizing our revenues. In addition, budgetary constraints and potential economic slowdowns may also continue to delay purchasing decisions by these prospective customers. These initiatives have costs associated with them, and we cannot assure you that they ultimately will prove successful, or result in, an increase to our revenues or profitability.

In addition, the loss or significant reduction in government spending by government entities could materially limit our ability to obtain government contracts. These limitations, if significant, could also have a material adverse effect on our business, financial condition and results of operations. In addition, we will need to develop additional strategic relationships with large government contractors to successfully compete for government contracts. Should we lose or fail to develop these strategic relationships we may not be able to implement our business strategy.

**The industry for our systems and software is evolving and its growth is uncertain.**

Demand as well as industry acceptance for recently introduced and existing systems, and software and sales from such systems and software, are subject to a high level of uncertainty and risk. With changing administration in government, changes in government budgets, and slowly evolving government standards on use of identity products, the government sector is slowly developing. The commercial sector can develop faster than the government sector, but it is also subject to a higher level of uncertainty because of potential uncertainty in the continued financial health of our commercial customers, as well as long sales cycles. Our business may suffer if the industry develops more slowly than anticipated and does not sustain industry acceptance.

**Failure to manage our operations if they expand could impair our future growth.**

If we can expand our operations, particularly through multiple sales to large retailers and government agencies in the document verification industry, the expansion will place significant strain on our management, financial controls, operating systems, personnel and other resources. Our ability to manage future growth, should it occur, will depend upon several factors, including our ability to do the following:

- build and train our sales force;
- establish and maintain relationships with distributors;
- develop customer support systems;
- develop expanded internal management and financial controls adequate to keep pace with growth in personnel and sales, if they occur; and
- manage the use of third-party manufacturers and suppliers.

If we can grow our business but do not manage our growth successfully, we may experience increased operating expenses, loss of customers, distributors or suppliers and declining or slowed growth of revenues.

**Failure to protect our proprietary technology may impair our competitive position.**

We continue to allocate significant resources to developing new and innovative technologies that are utilized in our products and systems. Because our continued success depends on, to a significant degree, our ability to offer products providing superior functionality and performance over those offered by our competitors, we consider the protection of our technology from unauthorized use to be fundamental to our success. This is done by processes aimed at identifying and seeking appropriate protection for newly-developed intellectual property, including patents, trade secrets, copyrights and trademarks, as well as policies aimed at identifying unauthorized use of such property. These processes include:

- contractual arrangements providing for nondisclosure of proprietary information;
- maintaining and enforcing issued patents and filing patent applications on innovative solutions to commercially important problems;
- protecting trade secrets;
- protecting copyrights and trademarks by registration and other appropriate means;
- establishing internal processes for identifying and appropriately protecting new and innovative technologies; and
- establishing practices for identifying unauthorized use of intellectual property.

Litigation can be very costly and divert management's attention. An adverse outcome in any litigation may have a severe negative effect on our financial results. To determine the priority of inventions, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office or oppositions in foreign patent and trademark offices, which could result in substantial cost and limitations on the scope or validity of our patents or trademarks.

Additionally, third parties, including our competitors or licensees, may seek to have our patents reviewed by the Patent Trial and Appeal Board of the United States Patent and Trademark Office in a post grant proceeding, such as post grant review or an inter parties review. Such proceedings, if instituted could cancel our patents or narrow the scope of our patent claims. We cannot predict the effect that such proceedings, if instituted, may have on our business or revenue received from licensing our patents.

In addition, foreign laws treat the protection of proprietary rights differently from laws in the United States. The failure of foreign laws or judicial systems to adequately protect our proprietary rights or intellectual property, including intellectual property developed on our behalf by foreign contractors or subcontractors, may have a material adverse effect on our business, operations and financial results.

**If our future products incorporate technologies that infringe the proprietary rights of third parties, and we do not secure licenses from them, we could be liable for substantial damages.**

We are not aware that our current products infringe the intellectual property rights of any third parties. We also are not aware of any third party intellectual property rights that may hamper our ability to provide future products and services. However, we recognize that the development of our services or products may require that we acquire intellectual property licenses from third parties to avoid infringement of those parties' intellectual property rights. These licenses may not be available at all or may only be available on terms that are not commercially reasonable. If third parties make infringement claims against us whether or not they are upheld, such claims could:

- consume substantial time and financial resources;
- divert the attention of management from growing our business and managing operations; and
- disrupt product sales and shipments.

If any third party prevails in an action against us for infringement of its proprietary rights, we could be required to pay damages and either enter into costly licensing arrangements or redesign our products so as to exclude any infringing use. As a result, we would incur substantial costs, delays in product development, sales and shipments, and our revenues may decline substantially. Additionally, we may not be able to achieve the minimum necessary growth for our continued success.



**Failure to attract and retain management and other personnel may damage our operations and financial results and cause our stock price to decline.**

We depend, to a significant degree, on the skills, experience and efforts of our executive officers and other key management, technical, finance, sales and other personnel. Our failure to attract, integrate, motivate and retain existing or additional personnel could disrupt or otherwise harm our operations and financial results. We do not carry key man life insurance policies covering any employees. The loss of services of certain of our key employees, an inability to attract or retain qualified personnel in the future, or delays in hiring additional personnel could delay the development of our business and could cause our stock price to decline.

**Our share price may be volatile and could decline substantially**

The market price of our common stock, like the price of shares of technology companies generally, has been and may continue to be volatile. From January 1, 2002 to March 21, 2018, the closing price of our common stock has varied from a high of \$140.00 to a low of \$0.82 per share, as reported on the NYSE MKT. Many factors may cause the market price for our common stock to decline, including:

- shortfalls in revenues, cash flows or continued losses from operations;
- delays in development or roll-out of any of our products;
- announcements by one or more competitors of new product acquisitions or technological innovations; and
- unfavorable outcomes from outstanding litigation.

In addition, the stock market experiences extreme fluctuations in price and volume that particularly affect the market price of shares of technology companies, such as ours. These price and volume fluctuations are often unrelated or disproportionate to the operating performance of the affected companies. Because of this volatility, we may fail to meet the expectations of our stockholders or of securities analysts and our stock price could decline as a result. Declines in our stock price for any reason, as well as broad-based market fluctuations or fluctuations related to our financial results or other developments, may adversely affect your ability to sell your shares at a price equal to or above the price at which you purchased them. Decreases in the price of our common stock may also lead to de-listing of our common stock.

**We incur significant accounting and other control costs that impact our financial condition.**

As a publicly traded corporation, we incur certain costs to comply with regulatory requirements. If regulatory requirements were to become more stringent or if controls thought to be effective later fail, we may be forced to make additional expenditures, the amounts of which could be material. Some of our competitors are privately owned, so their accounting and control costs could create a competitive advantage over us. Should our sales decline or if we are unsuccessful at increasing prices to cover higher expenditures for internal controls and audits, our costs associated with regulatory compliance will rise as a percentage of sales.

Securing government contracts typically involves a lengthy competitive bidding process. Often, unsuccessful bidders have the ability to challenge contract awards. Such challenges may increase costs, result in delays and risk the loss of the contract by the winning bidder. Protests or other delays related to material government contracts that may be awarded to us could result in revenue volatility. State and local government agency contracts may depend on the availability of matching funds from federal, state or local entities. State and local government agencies are subject to political, budgetary, purchasing and delivery constraints that may result in irregular revenue and operating results. Revenue volatility makes management of our business difficult. Outright loss of any material government contract through the protest process or otherwise, could significantly reduce our revenues.

**We could be adversely affected by a negative audit by the U.S. government.**

We, like other government contractors, are subject to various routine audits, reviews and investigations by U.S. government agencies, including the Defense Contract Audit Agency and various agency inspectors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations, and standards. Any costs found to be misclassified may be subject to repayment. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. government.

**Our business strategy exposes us to long sales and implementation cycles for our products.**

Historically, some of our primary target customers have been government agencies and branches of the U.S. military, both of which require long sales and implementation cycles for products, which may result in a long period of time prior to revenue realization. The loss or significant reduction in government spending could limit our ability to obtain government contracts. These limitations, if significant, could significantly reduce our revenues. We will need to develop additional strategic relationships with large government contractors in order to successfully compete for government contracts. Should we lose or fail to develop these strategic relationships, we may not be able to implement our business strategy.

**We cannot be certain that our backlog estimates will result in actual revenues in any particular fiscal period because our clients may modify or terminate projects or may decide not to exercise contract options.**

Our backlog represents sales value of firm orders for products and services not yet delivered and, for long-term, executed contractual arrangements (contracts, subcontract and customer commitments), the estimated future sales value of product shipments, transactions processed and services to be provided over the term of the contractual arrangements, including anticipated renewal options. For contracts with indefinite quantities, our backlog is estimated based on current activity levels. Our backlog includes estimates of revenues, the receipt of which require future government appropriations, depend on option exercise by clients or are subject to contract modification or termination. At December 31, 2017, our backlog approximated \$28,000. These estimates are based on our experience under such contracts and similar contracts, and we believe that such estimates are reasonable. If we do not realize a substantial amount of our backlog, as we presently anticipate, our operations could be harmed and future revenues could be significantly reduced.

**Long lead times for the components used in certain products creates uncertainty in our supply chain and may prevent us from making required deliveries to our customers on time.**

We rely exclusively on commercial off-the-shelf technology in manufacturing our products. The lead-time for ordering certain components used in our products and for the production of products can be lengthy. As a result, we must, from time to time, order products based on forecasted demand. If demand for products lags significantly behind forecasts, we may purchase more product than we can sell. Conversely, if demand exceeds forecasts, we may not have enough products to meet our obligations to our customers.

**We obtain certain hardware and services, as well as some software applications, from a limited group of suppliers, and our reliance on these suppliers involves significant risks, including reduced control over quality and delivery schedules.**

Any financial instability of our suppliers could result in having to find new suppliers. We may experience significant delays in manufacturing and deliveries of products and services to customers if we lose our sources or if supplies and services delivered from these sources are delayed. As a result, we may be required to incur additional development, manufacturing and other costs to establish alternative supply sources. It may take several months to locate alternative suppliers, if required. We cannot predict whether we will be able to obtain replacement hardware within the required time frames at affordable costs, or at all. Any delays resulting from suppliers failing to deliver hardware or delays in obtaining alternative hardware, in sufficient quantities and of sufficient quality, or any significant increase in the cost of hardware from existing or alternative suppliers could result in delays on the shipment of product which, in turn, could result in the loss of customers we may not be able to successfully complete.

**Our Defense ID<sup>®</sup> system relies on access to databases run by various government agencies. If these governmental agencies were to stop sharing data with us, the utility of the Defense ID system would be diminished and business would be damaged.**

Currently, our Defense ID<sup>®</sup> system accesses over 100 separate databases run by various government and law enforcement agencies. We cannot be assured that each of these agencies will continue to cooperate with us. In the event that one or more of these agencies does not continue to provide access to these databases, the utility of the Defense ID<sup>®</sup> system may be diminished and, as a result, our sales could suffer.

**Our Defense ID<sup>®</sup> system requires permission from each branch of the U.S. military in the form of an Authority to Operate (ATO). If an existing ATO is revoked, we would risk losing our ability to install our Defense ID<sup>®</sup> system at military bases.**

It is our current understanding that our Defense ID<sup>®</sup> system requires authority to operate at each Defense Department installation. There are, however, several views within the Defense Department pertaining to authorizations and accreditations required for information technology systems. We continue to work with the Defense Department to clarify these requirements that generate uncertainty for Defense Department contractors.

Authority to operate is granted to each installation and requires the installation to expend resources in the authorization process. The time required for this process can be lengthy, given resource availability.

We cannot be assured that Defense Department installations will have the resources necessary to pursue their respective authorities to operate, or that the authority to operate can be granted in a timely manner. The results of this may include loss or delay of projected Defense ID sales.

**Security breaches and other disruptions could potentially compromise our information and expose us to liability, which would be harmful to our business**

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, and personally identifiable information of our customers, their customers our employees, in our data centers and on our networks. The secure processing, maintenance and transmission, when applicable, of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, potential liability under laws that protect the privacy of personal information, and regulatory penalties. This in turn could disrupt our operations and the services we provide to customers, damage our reputation, and potentially cause a loss of confidence in our products and service offerings, which could adversely affect our business and competitive position.

**Our Defense ID<sup>®</sup> system manages private personal information and information related to sensitive government functions and a breach of the security systems protecting such information may result in a loss of suppliers or customers or result in litigation.**

The protective security measures designed to protect sensitive information and contained in our products may not prevent all security breaches. Failure to prevent security breaches may disrupt our business, damage our reputation and expose us to litigation and liability. A party who is able to circumvent protective security measures used in these systems could misappropriate sensitive information or cause interruptions or otherwise damage our products, services and reputation as well as the property and privacy of customers. If unintended parties obtain sensitive data and information, or create bugs or viruses or otherwise sabotage the functionality of our products, we may receive negative publicity, incur liability to our customers or lose the confidence of our customers, any of which may cause the termination or modification of contracts. Further, our existing insurance coverage may be insufficient to cover losses and liabilities that may result from such events.

In addition, we may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by the occurrence of any such breaches. However, protective or remedial measures may not be available at a reasonable price or at all, or may not be entirely effective if commenced.

**Future government regulation restricting the capture of information electronically stored on identification cards could adversely affect our business.**

The Defense ID<sup>®</sup> system is designed to read, verify and capture information from identification cards. Currently, some jurisdictions have restrictions on what can be done with this information. Because issues of personal privacy continue to be a major topic of public policy debate, it is possible that, in the future, these or other jurisdictions may introduce similar or additional restrictions on capturing this information. Therefore, the implementation of unfavorable regulations or unfavorable interpretations of existing regulations by courts or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected industry sectors to become impractical and reduce our revenues and potential revenues.

**We are subject to risks associated with product failure and technological flaws.**

Our products are complex and may contain undetected errors or result in failures when first introduced or when new versions are released. Despite vigorous product testing efforts and testing by current and potential customers, it is possible that errors will be found in a new product or enhancement after commercial shipments have commenced. The occurrence of product defects or errors could result in negative publicity, delays in product introduction and the diversion of resources to remedy defects and loss of or delay in industry acceptance or claims by customers against us and could cause us to incur additional costs, any one of which could adversely affect our business. Because of the risk of undetected error, we may be compelled to accept liability provisions that vary from our preferred contracting model in certain critical transactions. There is a risk that in certain contracts and circumstances we may not be successful in adequately minimizing product and related liabilities or that the protections negotiated will not ultimately be deemed enforceable.

We carry product liability insurance, but existing coverage may not be adequate to cover potential claims. The failure of our products to perform as promised could result in increased costs, lower margins, liquidated damage payment obligations and harm to our reputation.

**We may not be able to keep up with rapid technological change.**

The sectors for all our products are characterized by rapid technological advancements. Significant technological change could render existing technology obsolete. If we are unable to successfully respond to these developments, or do not respond in a cost-effective manner, our business, financial condition and results of operations will be materially adversely affected.

**Future capital requirements may require incurring debt or dilution of existing stockholders.**

Acquisition and development opportunities and other contingencies may arise, which could require us to raise additional capital or incur debt. If we raise additional capital through the sale of equity, including preferred stock, or convertible debt securities, the percentage ownership of our then existing stockholders will be diluted.

**Because we do not intend to pay dividends on our Common Stock, stockholders will benefit from an investment in our stock only if it appreciates in value.**

We have never declared or paid any cash dividends on our shares of stock. We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our Board of Directors and will depend on factors the Board of Directors deems relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our credit facilities and other financing arrangements. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of our stock. There is no guarantee that our stock will appreciate in value.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

Our corporate headquarters is currently located in Melville, New York, where we occupy approximately 3,825 square feet of office space pursuant to a lease that expires on February 28, 2021. Many administrative and technical personnel for all product divisions are based at this location, with a certain number of individuals operating out of home offices throughout the country. We believe that our existing facility is adequate to meet current requirements and that additional or substitute space will be available as needed to accommodate any expansion of operations.

**Item 3. Legal Proceedings**

We are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

**Item 4. Mine Safety Disclosures**

None

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Our common stock is traded on the NYSE MKT Stock Exchange under the symbol “IDN.” The following table indicates high and low sales prices for the periods indicated.

	<u>Low</u>	<u>High</u>
<b><u>2016</u></b>		
First quarter .....	\$ 0.85	\$ 1.60
Second quarter.....	\$ 1.38	\$ 2.14
Third quarter.....	\$ 1.27	\$ 1.80
Fourth quarter.....	\$ 1.55	\$ 2.84
<b><u>2017</u></b>		
First quarter .....	\$ 1.98	\$ 3.10
Second quarter.....	\$ 2.78	\$ 4.20
Third quarter.....	\$ 2.42	\$ 3.84
Fourth quarter.....	\$ 2.11	\$ 3.05
<b><u>2018</u></b>		
First quarter* .....	\$ 2.13	\$ 2.87

\* Portion of first fiscal quarter through March 21, 2018.

(b) As of March 21, 2018, there were 189 shareholders of record of our common stock.

(c) No cash dividends or other cash distributions made by us during the fiscal year ended December 31, 2017. Future dividend policy will be determined by our Board of Directors based on our earnings, financial condition, capital requirements and other then existing conditions. It is anticipated that cash dividends will not be paid to the holders of our common stock in the foreseeable future.

#### (d) Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2017, with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by security holders <sup>(1)</sup> .....	1,637,217	\$ 1.36	878,425
Equity compensation plans not approved by security holders .....	N/A	\$ N/A	N/A
<b>Total.....</b>	<b>1,637,217</b>	<b>\$ 1.36</b>	<b>878,425</b>

(1) Represents 1,514,872 options and 5,859 restricted stock units under the 2015 Omnibus Incentive Plan, 115,256 options under the 2006 Equity Incentive Plan and 1,250 options under the 2003 Stock Option Plan.

#### (e) Recent Sales of Unregistered Securities

None.

#### (f) Repurchases of Equity Securities

There were no shares purchased during 2017.

#### (g) Reverse Stock Split

Effective on August 12, 2014 and commencing with the opening of trading on August 13, 2014, we effected a reverse stock split of our issued and outstanding common stock, \$0.001 par value per share, at a ratio of one-for-eight, with each eight (8) issued and outstanding shares of the common stock automatically combined and converted into one (1) issued and outstanding share of the common stock. The reverse stock split was approved by stockholders holding a majority of the outstanding voting power at a special meeting of stockholders held on August 12, 2014.

## **Item 6. Selected Financial Data**

The following selected financial data presented under the captions “Statement of Operations Data” and “Balance Sheet Data” as of the end of each of the five years ended December 31, 2017, are derived from our financial statements. The selected financial data should be read in conjunction with the financial statements as of December 31, 2017 and 2016 and for each of the two years in the period ended December 31, 2017, the accompanying notes and the report of independent registered public accounting firms thereon, which are included elsewhere in this Form 10-K. Our consolidated financial statements include our accounts and our wholly owned subsidiaries, Mobilisa and Positive Access.

	<b>Years Ended December 31,</b>				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	(In thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Revenue .....	\$ 7,298	\$ 6,613	\$ 7,015	\$ 3,839	\$ 3,598
Loss from operations .....	(2,424)	(7,645)	(5,480)	(5,750)	(6,080)
Net loss .....	(2,424)	(7,644)	(5,334)	(5,735)	(6,021)
Net loss per common share.....					
Basic .....	(0.70)	(1.59)	(0.55)	(0.58)	(0.48)
Diluted .....	(0.70)	(1.59)	(0.55)	(0.58)	(0.48)
Common shares used in computing per share amounts.....					
Basic .....	3,487	4,801	9,658	9,915	12,429
Diluted .....	3,487	4,801	9,658	9,915	12,429

	<b>As of December 31,</b>				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	(In thousands)				
<b>Balance sheet data:</b>					
Cash and cash equivalents .....	\$ 224	\$ 2,966	\$ 5,953	\$ 3,092	\$ 8,010
Working capital .....	(720)	1,880	5,659	2,471	7,340
Total assets .....	17,902	15,814	18,473	14,534	17,882
Total liabilities .....	2,546	2,666	2,146	1,598	1,873
Stockholders' equity .....	15,356	13,148	16,326	12,935	16,009

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### Overview

We are a technology company engaged in developing, integrating and marketing identity authentication systems for various applications including mobile, handheld and integrated systems for the government, military and commercial markets. Our products include ID-Check, Retail ID™ and Age ID™ a patented technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from U.S. and Canadian jurisdictions designed to improve the customer experience for the financial, hospitality and retail sectors and Defense ID® and Law ID™ systems, advanced ID card access control products currently protecting military and federal locations.

### Critical Accounting Policies and the Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment consideration and valuation of goodwill and intangible assets, deferred tax valuation allowances, allowance for doubtful accounts, revenue allocation of multi-element arrangements and the fair value of stock options granted under our stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, stock based compensation, deferred taxes, goodwill and intangible asset valuation and impairment, and commitments and contingencies. These policies and our procedures related to these policies are described in detail below.

### *Valuation of goodwill and other long-lived assets*

Our long-lived assets include property and equipment, goodwill and intangible assets. As of December 31, 2017, the balances of property and equipment, goodwill and intangible assets, all net of accumulated depreciation and amortization and impairments, were \$211,602, \$8,101,661 and \$463,578, respectively. As of December 31, 2016, the balances of property and equipment, goodwill and intangible assets, all net of accumulated depreciation and amortization, were \$270,776, \$8,101,661 and \$2,154,563, respectively.

We depreciate property and equipment and amortize intangible assets that have finite lives over their estimated useful lives. For purposes of determining whether there are any impairment losses, as further discussed below, management evaluates the carrying amounts of identifiable long-lived tangible and intangible assets, including their estimated useful lives, when indicators of impairment are present as more fully described below. Based on our review of the carrying amounts of the long-lived tangible and intangible assets with finite lives, we may also determine that shorter estimated useful lives are appropriate. In that event, we record depreciation and amortization over shorter future periods, which would reduce our earnings.

#### *Goodwill*

The excess of the purchase consideration over the fair value of the assets of the acquired businesses is considered goodwill. Under authoritative guidance, purchased goodwill is not amortized, but rather it is periodically reviewed for impairment. We had goodwill of \$8,101,661 at December 31, 2017 and 2016. This goodwill resulted from the acquisition of Mobilisa, Inc. and Positive Access Corporation.

For the years ended December 31, 2017 and 2016, we performed our annual impairment test of goodwill in the fourth quarter. Under authoritative guidance, we can use industry and Company specific qualitative factors to determine whether it is more likely than not that impairment exists, before using a two-step quantitative analysis. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price. We performed the first step of the goodwill impairment test in order to identify potential impairment by comparing our fair value of the Company to our carrying amount, including goodwill. The fair value was determined using the weighting of certain valuation techniques, including both income and market approaches which include a discounted cash flow analysis, an estimation of an implied control premium, in addition to our market capitalization on the measurement date. The implied control premium selected was developed based on certain observable market data of comparable companies. The market capitalization is sensitive to the volatility of our stock price. Although we believe that the factors considered in the impairment analysis are reasonable, changes in any one of the assumptions used could have produced a different result which may have led to an impairment charge. Any future impairment loss could have a material adverse effect on our long-term assets and operating expenses in the period in which impairment is determined to exist.

For the years ended December 31, 2017 and 2016, we determined that the fair value was more than our carrying amount and therefore the second step of the goodwill impairment test was not required.

#### *Intangible Assets*

Intangible assets include trade names, patents and non-contractual customer relationships as described more fully in Note 5. We use the straight-line method to amortize these assets over their estimated useful lives. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC Topic 360. To determine recoverability of its long-lived assets, we evaluate the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

As a result of a projected loss of revenue from certain customers moving to another platform along with a shift in our marketing strategy for 2018, we performed a quantitative impairment test as of December 31, 2017 for the patents, trade names and customer relationships acquired in the Mobilisa acquisition. We utilized the income approach to test our patent and tradenames, specifically the Relief-from-Royalty method, which assumes that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. By acquiring the intangible asset, the user avoids these payments. As a result of the analysis, \$250,582 and \$287,928, respectively, of impairment was recorded due to the decline in the valuation of tradenames and patents. We utilized the income approach to test our customer relationships, specifically the Multi-Period Excess Earnings Method, which estimates the cash flows attributable to the customer relationships, after considering the return associated with other contributing assets. As a result of the analysis, \$836,912 of impairment was recorded due to the decline in the valuation of the customer relationships. Application of the impairment test requires judgement, including determination of royalty rates, and projecting revenue attributable to the assets in order to determine fair value. These impairments, totaling \$1,375,422, are recorded as Impairment of Intangible Assets on our Consolidated Statements of Operations. No impairments were recognized during the year ended December 31, 2016.



## *Revenue Recognition and Deferred Revenue*

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. We sell our commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed.

Under the provisions of ASC Topic 605-25, “Revenue Arrangements with Multiple Deliverables,” for multi-element arrangements that include tangible products containing software essential to the tangible product’s functionality and undelivered software elements relating to the tangible product’s essential software, we allocate revenue to all deliverables based on their relative selling prices. In such circumstances, we use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price and (iii) best estimate of the selling price (“ESP”). VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable. ESPs reflect our best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

We also recognize revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years.

Revenue from research and development contracts are generally with government agencies under long-term cost-plus fixed-fee contracts, where revenue is based on time and material costs incurred. Revenue from these arrangements is recognized as time is spent on the contract and materials are purchased. Research and development costs are expensed as incurred.

We also perform consulting work for other companies. These services are billed based on time and materials. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three-year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

We offer enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically one to three years.

### *Stock-Based Compensation*

We account for the issuance of equity awards to employees in accordance with ASC Topic 718 and 505, which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. This pronouncement establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees.

### *Deferred Income Taxes*

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry forwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We have recorded a full valuation allowance for our net deferred tax assets as of December 31, 2017 and 2016, due to the uncertainty of the realizability of those assets.

### *Commitments and Contingencies*

We are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

The above listing is not intended to be a comprehensive list of all our accounting policies. In many cases, the accounting treatment of a transaction is specifically dictated by generally accepted accounting principles, with no need for management’s judgment in their application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result.

**Results of Operations** (All figures were rounded to the nearest \$1,000)

**COMPARISON OF THE YEAR ENDED DECEMBER 31, 2017**  
**TO THE YEAR ENDED DECEMBER 31, 2016**

**REVENUE.** Total revenues were approximately 6% lower in the year ended December 31, 2017 as compared to the year ended December 31, 2016.

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>% Change</b>
Identity Systems .....	\$ 3,584,000	\$ 3,825,000	(6)%
Other.....	14,000	14,000	0%
	<u>\$ 3,598,000</u>	<u>\$ 3,839,000</u>	<u>(6)%</u>

The decrease in the Identity Systems revenues in 2017 is a result of lower commercial and Defense ID<sup>®</sup> sales.

As of December 31, 2017, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, was approximately \$28,000. As of December 31, 2016, our backlog was approximately \$133,000. Period to period comparisons may not be indicative of future operating results, since we still face long sales cycles, and therefore, we cannot predict with certainty in which period the opportunities currently in the pipeline will develop into sales or if they will develop at all.

**GROSS PROFIT.** Gross profit increased by \$6,000 to \$3,076,000 for the year ended December 31, 2017 from \$3,070,000 in the year ended December 31, 2016. Our gross profit, as a percentage of revenues, was 85% and 80% in 2017 and 2016, respectively. The increase in percentage in 2017 is due to higher revenues on our SaaS model and less equipment sales that typically have a lower margin.

**OPERATING EXPENSES.** Operating expenses, which consist of selling, general and administrative expenses, research and development expenses and an impairment charge on our intangible assets, increased by \$337,000 or 4% to \$9,157,000 for the year ended December 31, 2017 from \$8,820,000 for the year ended December 31, 2016. Selling, general and administrative expenses decreased 9% to \$5,865,000 for the year ended December 31, 2017 from \$6,414,000 for the year ended December 31, 2016, as a result of lower stock-based compensation costs offset by a net increase on the impact of severance costs in both periods. Research and development expenses decreased 20% to \$1,916,000 for the year ended December 31, 2017 from \$2,406,000 for the year ended December 31, 2016, due to decreased use of specialized consulting firms for certain research and development projects. An impairment charge on our intangible assets was \$1,375,000 for the year ended December 31, 2017. This impairment charge is fully described in Critical Accounting Policies and the Use of Estimates.

**INTEREST AND OTHER INCOME.** Interest and other income was \$60,000 for the year ended December 31, 2017 as compared to \$15,000 during the year ended December 31, 2016.

**INCOME TAXES.** We have incurred net losses to date; therefore, we have paid nominal income taxes.

**NET LOSS.** As a result of the factors noted above, we incurred a net loss of \$6,021,000 for the year ended December 31, 2017 as compared to a net loss of \$5,735,000 for the year ended December 31, 2016.

**Liquidity and Capital Resources** (All figures were rounded to the nearest \$1,000)

As of December 31, 2017, we had cash of \$8,010,000, working capital (defined as current assets minus current liabilities) of \$7,340,000, total assets of \$17,882,000 and stockholders' equity of \$16,009,000.

During 2017, our cash increased by \$4,918,000. Cash used in operating activities was \$3,745,000 in 2017 as compared to cash used in operating activities of \$4,240,000 in 2016. We generated cash of \$5,000 from investing activities during 2017 compared to cash used of \$28,000 in 2016. Cash generated in financing activities was \$8,658,000 in 2017 as compared to \$1,408,000 in 2016 as a result of higher capital raising in 2017.

On August 4, 2017, we completed a public offering of 4,168,750 shares of its common stock, offered to the public at \$2.25 per share. Net proceeds from this offering were approximately \$8,670,000 after deducting underwriting discounts and commissions paid by the Company. Direct offering costs totaling approximately \$157,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity.

On June 15, 2016, we completed a public offering of 1,200,000 shares of our common stock and five-year warrants to purchase 600,000 shares with an exercise price of \$2.20 per share, at a combined public offering of \$1.75 per share and half-warrant. Net proceeds from this offering were approximately \$1,902,000 after deducting underwriting discounts and commissions paid by us. Direct offering costs totaling approximately \$124,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity. As part of the offering, there was an overallotment option for the underwriters to purchase up to 180,000 shares of common stock at a purchase price of \$1.63 per share. Through December 31, 2017, certain warrant holders exercised their right to purchase 216,500 shares of our common stock which resulted in net proceeds of approximately \$476,000.

On February 24, 2016, we entered into a stock repurchase agreement with two former directors, who were also members of management (the "Former Executives") for the repurchase of all 979,114 shares owned by the Former Executives of our common stock for \$1,096,608. The transaction was finalized on March 4, 2016.

On August 31, 2015, we sold our wireless enterprise assets to the Jamestown S'Klallam Tribe (the "Buyer") for total consideration of \$350,000 which consists of an upfront cash payment of \$30,000, the issuance of a promissory note totaling \$200,000 and contingent consideration up to a maximum of \$120,000 based on future earnings. We recognized a gain on the sale of approximately \$109,000 which is included in interest and other income for the year ended December 31, 2015. Total assets disposed include certain trade names associated with the wireless assets with a net book value of approximately \$65,000 and certain fixed assets with a net book value of approximately \$56,000. Any gain on contingent consideration will be recognized as it is earned. Under the terms of the promissory note, monthly payments in the amount of \$3,683 including principal and interest at 4%, are to be made over a 60-month term expiring in August 2020. At December 31, 2017, the total note receivable was \$111,609, of which \$40,471 and \$71,138 is included in Other Current Assets and Notes Receivable, net of current portion, respectively on the Consolidated Balance Sheets.

On May 22, 2017, the Company entered into revolving credit facility with Northwest Bank ("Northwest") and simultaneously terminated its revolving credit facility with Silicon Valley Bank. This new agreement allows for borrowings to the lesser of (i) \$2,000,000 or (ii) 95% of the balance in the Company's money market account less \$250,000. The borrowings are secured by the Company's existing deposit and money market accounts with Northwest. The facility bears interest at a rate consistent with Northwest's money market account (0.65% at December 31, 2017) plus 3%. Interest is payable monthly and the principal is due upon maturity on May 22, 2018. As of December 31, 2017, there were no amounts outstanding under this facility and unused availability under this facility was \$2,000,000.

We currently anticipate that our available cash, as well as cash from the previously mentioned stock offerings, and expected cash from operations and availability under the revolving credit agreement, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months.

We keep the option open to raise additional funds to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for our technology, enhance our operating infrastructure, respond to competitive pressures, or acquire complementary businesses or necessary technologies. There can be no assurance that we will be able to secure the additional funds when needed or obtain such on terms satisfactory to us, if at all.

We have filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"), which became effective July 19, 2010. Under the shelf registration statement, we may offer and sell, from time to time in the future in one or more public offerings, our common stock, preferred stock, warrants, and units. The aggregate initial offering price of all securities sold by us will not exceed \$25,000,000, and, pursuant to SEC rules, we may only sell up to one-third of the market cap held by non-affiliate stockholders in any 12-month period. We renewed this registration statement with the SEC on July 31, 2013 and it was declared effective August 6, 2013. We renewed this registration statement with the SEC on October 21, 2016 and it was declared effective November 4, 2016.

The specific terms of any future offering, including the prices and use of proceeds, will be determined at the time of any such offering and will be described in detail in a prospectus supplement which will be filed with the SEC at the time of the offering.

The shelf registration statement is designed to give us the flexibility to access additional capital at some point in the future when market conditions are appropriate.

We are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

## **Adjusted EBITDA**

We use Adjusted EBITDA as a non-GAAP financial performance measurement. Adjusted EBITDA is calculated by adding back to net loss interest, income taxes, impairments of long-lived assets and goodwill, depreciation, amortization and stock-based compensation expense. Adjusted EBITDA is provided to investors to supplement the results of operations reported in accordance with GAAP. Management believes that Adjusted EBITDA provides an additional tool for investors to use in comparing our financial results with other companies that also use Adjusted EBITDA in their communications to investors. By excluding non-cash charges such as impairments of long-lived assets and goodwill, amortization, depreciation and stock-based compensation, as well as non-operating charges for interest and income taxes, investors can evaluate our operations and can compare its results on a more consistent basis to the results of other companies. In addition, adjusted EBITDA is one of the primary measures management uses to monitor and evaluate financial and operating results.

We consider Adjusted EBITDA to be an important indicator of our operational strength and performance of our business and a useful measure of our historical operating trends. However, there are significant limitations to the use of Adjusted EBITDA since it excludes interest income and expense, impairments of long lived assets and goodwill, stock based compensation expense, all of which impact our profitability, as well as depreciation and amortization related to the use of long term assets which benefit multiple periods. We believe that these limitations are compensated by providing Adjusted EBITDA only with GAAP net loss and clearly identifying the difference between the two measures. Consequently, Adjusted EBITDA should not be considered in isolation or as a substitute for net loss presented in accordance with GAAP. Adjusted EBITDA as defined us may not be comparable with similarly named measures provided by other entities.

A reconciliation of GAAP net loss to Adjusted EBITDA follows:

	<b>Year Ended December 31,</b>	
	<b>(Unaudited)</b>	
	<b>2017</b>	<b>2016</b>
Net loss.....	\$ (6,020,505)	\$ (5,734,681)
Reconciling items:.....		
Interest and other, net.....	(59,841)	(14,930)
Depreciation and amortization .....	412,351	434,291
Stock-based compensation costs .....	435,679	935,899
Impairment of intangible assets.....	1,375,422	-
Adjusted EBITDA.....	<u>\$ (3,856,894)</u>	<u>\$ (4,379,421)</u>

## **Related Party Transactions**

Our subsidiary, Mobilisa, Inc. leased office space from a company (“Lessor Company”) that is wholly-owned by the Executives ending in 2017. The base annual rent for this facility was \$96,010 was subject to annual increases based on the increase in the CPI index plus 1%. On February 24, 2016, Mobilisa and the Lessor Company entered into a lease amendment agreement reducing the space under this lease that took effect on March 31, 2016 thereby closing the office facility and occupied storage space that expired on December 31, 2016. As a result of this amended agreement, we made a \$100,000 termination payment to the Lessor in full satisfaction of our remaining obligations under the original lease. For the years ended December 31, 2017 and 2016, total rent payments for this facility were \$0 and \$124,001 (including this termination payment), respectively.

On February 24, 2016, we entered into a stock repurchase agreement with these Executives for the repurchase of all 979,114 shares of our common stock owned by the Executives for \$1,096,608. The transaction was finalized on March 4, 2016.

## **Net Operating Loss Carry Forwards**

In March 2016, we completed an Internal Revenue Code Section 382 study which determined that a cumulative three-year ownership change in excess of 50% had occurred in March 2016 due to a share repurchase; see “Recent Developments.” As a result, our available net operating loss (“NOL”) was reduced from \$47.4 million to \$2.2 million during the first quarter of 2016. Our available NOL at December 31, 2017 was approximately \$11 million. The federal and state NOLs are available to offset future taxable income and expire from 2017 through 2036 if not utilized.

## Contractual Obligations

Below is a table, which presents our contractual obligations and commitments at December 31, 2017:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases .....	\$ 328,647	\$ 143,752	\$ 170,414	\$ 14,481	\$ -
Consulting Agreements .....	-	-	-	-	-
Purchase Obligations .....	-	-	-	-	-
Total Contractual Obligations.....	<u>\$ 328,647</u>	<u>\$ 143,752</u>	<u>\$ 170,414</u>	<u>\$ 14,481</u>	<u>\$ -</u>

## Recently Issued Accounting Pronouncements Not Yet Effective

Except as discussed below, we do not expect the impact of the future adoption of recently issued accounting pronouncements to have a material impact on our financial statements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. In addition, this guidance requires new or expanded disclosures related to the judgments made by companies when following this framework and additional quantitative disclosures regarding contract balances and remaining performance obligations. ASU No. 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. We developed an implementation plan to adopt this new guidance, which included an assessment of the impact of the new guidance on our financial position and results of operations. We have completed our assessment and have determined that this standard will have no material impact on its financial position or results of operations, except enhanced disclosure regarding revenue recognition, including disclosures of revenue streams, performance obligations, variable consideration and the related judgments and estimates necessary to apply the new standard. On January 1, 2018, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and for all open contracts and related amendments as of January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 will be presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

On January 1, 2017, we adopted ASU No. 2016-09, *Improvements to Employee Share Based Payment Accounting* which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards, forfeitures and classification on the statement of cash flows. ASU 2016-09 allows us to make an accounting policy election to either estimate forfeitures or account for forfeitures as they occur. We have elected to account for forfeitures as they occur and is required to be applied on a modified retrospective basis. As a result, we recorded a cumulative effect adjustment to accumulated deficit and additional paid-in-capital in the amount of \$33,894 as of January 1, 2017 on the consolidated balance sheet.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (“ASU 2015-11”) which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and was effective for periods beginning after December 15, 2016, with early adoption permitted. Though we adopted this amendment on January 1, 2017, ASU 2015-17 had no material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* which simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update were effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. Though we adopted this amendment on January 1, 2017, ASU 2015-17 had no material impact on our consolidated financial statements as all deferred tax assets and liabilities have a full valuation allowance.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires that lease arrangements longer than 12 months' result in an entity recognizing an asset and liability. The pronouncement is effective for periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact this guidance is expected to have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments* which would eliminate the diversity in practice related to the classification of certain receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017 for public entities with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. We do not expect the implementation of this standard to have a material effect on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019, and early adoption is permitted. We are in the process of evaluating the impact of this standard on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09") which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. ASU 2017-09 will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We are in the process of evaluating the impact of this standard on our consolidated financial statements.

### **Off-Balance Sheet Arrangements**

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

### **Forward Looking Statements**

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, loss from operations and cash flow. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Financial instruments, which subject us to concentrations of credit risk, consist primarily of cash and cash equivalents. We maintain cash between three financial institutions. The marketable securities and short-term investments are invested in money market funds and bank certificates of deposit. We perform periodic evaluations of the relative credit standing of these institutions.

## **Item 8. Financial Statements and Supplementary Data**

Our financial statements and supplementary data are attached hereto beginning on Page F-1.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

There have been no changes in or disagreements with our principal independent registered public accounting firm for the two-year period ended December 31, 2017.

## **Item 9A. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and our Chief Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. As of December 31, 2017, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15I, were effective.

Our disclosure controls and procedures have been formulated to ensure (i) that information that we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 were recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) that the information required to be disclosed by us is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Annual Report of Management on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 15d-15(f) under the Exchange Act) for the Company. Management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2017 (the end of our fiscal year), based on the framework and criteria established in the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

## **Item 9B. Other Information**

None.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference from our 2018 definitive Proxy Statement (which will be filed with the SEC within 120 days after December 31, 2017 in connection with the solicitation of proxies for the Company's 2018 annual meeting of stockholders) ("2018 Proxy Statement") under the captions "Proposal 1 – Election of Directors," "Other Information – Executive Officers," and "Beneficial Ownership Reporting Compliance under Section 16(a) of the Exchange Act."

#### **Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference from our 2018 Proxy Statement under the captions "Executive Compensation" and "Director Compensation."

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference from our 2018 Proxy Statement under the captions "Other Information—Security Ownership of Certain Beneficial Owners and Management" and "Other Information – Equity Compensation Plan Information."

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference from our 2018 Proxy Statement under the captions "Other Information – Related Party Transactions Overview," "Other Information – Certain Transactions with Related Persons" and "Director Attributes and Independence."

#### **Item 14. Principal Accounting Fees and Services**

The information required by this Item is incorporated herein by reference from our 2018 Proxy Statement under the caption "Proposal 2 – Ratification of the Selection of Independent Auditors."



## PART IV

### **Item 15. Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements

Consolidated Balance Sheets as of December 31, 2017 and 2016  
Consolidated Statements of Operations for the years ended December 31, 2017 and 2016  
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017 and 2016  
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016

(b) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Incorporation of the Company (1)
3.2	Amendment to the Certificate of Incorporation of the Company (11)
3.3	Certificate of Amendment to the Certificate of Incorporation of the Company (8)
3.4	Amended and Restated By-laws of the Company (12)
4.1	Specimen Stock Certificate (7)
10.1	Agreement of Lease between the Company and 535 realty Management Corp., dated as of December 27, 2017
10.2	1998 Stock Option Plan (1) *
10.3	1999 Stock Option Plan (1) *
10.4	2001 Stock Option Plan (2) *
10.5	2003 Stock Option Plan (3) *
10.6	2006 Equity Incentive Plan (5) *
10.7	2015 Omnibus Incentive Plan (13) *
10.8	Bill Roof Chief Executive Officer Employment Agreement (9)
10.9	Bill White Severance Agreement (9)
10.10	Bill Roof Separation and Consulting Agreement dated November 2, 2017*
14.1	Code of Business Conduct and Ethics (6)
21	List of Subsidiaries (7)
23.1	Consent of EisnerAmper LLP **
31.1	Certification of CEO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 **
31.2	Certification of CFO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 **
32	Certification of CEO and CFO pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase **
101.DEF	XBRL Taxonomy Extension Definition Linkbase **
101.LAB	XBRL Taxonomy Extension Label Linkbase **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase **

\* Denotes a management contract or compensatory plan, contract or arrangement.

\*\* Filed herewith.

- (1) Incorporated by reference to Registration Statement on Form SB-2 (File No. 333-87797) filed September 24, 1999.
- (2) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed May 31, 2001.
- (3) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed June 13, 2003.
- (4) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed August 10, 2010.
- (5) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 25, 2014.
- (6) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 30, 2004.
- (7) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 11, 2010.
- (8) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 13, 2014.
- (9) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed November 4, 2014.
- (10) Incorporated by reference to Registrant's Current Report on Form 8-K filed October 20, 2014.
- (11) Incorporated by reference to Registrant's Current Report on Form 8-K filed October 28, 2009.
- (12) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 14, 2007.
- (13) Incorporated by reference to the Registrant's Proxy Statement on Schedule 14A filed April 9, 2015.

**FINANCIAL STATEMENTS**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Intellicheck, Inc.

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Intellicheck, Inc. (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ EisnerAmper LLP*

We have served as the Company’s auditor since 2010.

EISNERAMPER LLP  
Iselin, New Jersey  
March 22, 2018

**INTELLICHECK, INC.**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash.....	\$ 8,010,161	\$ 3,092,172
Accounts receivable, net of allowance of \$18,750 and \$74,354 as of December 31, 2017 and 2016, respectively.....	652,627	502,126
Inventory .....	85,321	70,547
Other current assets .....	218,835	165,473
Total current assets .....	<u>8,966,944</u>	<u>3,830,318</u>
NOTE RECEIVABLE, net of current portion .....	71,138	114,909
PROPERTY AND EQUIPMENT, net .....	211,602	270,776
GOODWILL.....	8,101,661	8,101,661
INTANGIBLE ASSETS, net.....	463,578	2,154,563
OTHER ASSETS.....	67,181	61,298
Total assets.....	<u>\$ 17,882,104</u>	<u>\$ 14,533,525</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable .....	\$ 71,578	\$ 14,140
Accrued expenses.....	815,350	519,957
Deferred revenue, current portion .....	739,980	825,538
Total current liabilities.....	<u>1,626,908</u>	<u>1,359,635</u>
OTHER LIABILITIES		
Deferred revenue, long-term portion.....	87,736	177,306
Other long-term liabilities .....	158,407	61,133
Total liabilities .....	1,873,051	1,598,074
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock – \$.001 par value; 40,000,000 shares authorized; 15,009,246 and 10,718,553 shares issued and outstanding as of December 31, 2017 and 2016, respectively .....	15,009	10,719
Additional paid-in capital.....	126,416,869	117,293,158
Accumulated deficit .....	(110,422,825)	(104,368,426)
Total stockholders' equity .....	<u>16,009,053</u>	<u>12,935,451</u>
Total liabilities and stockholders' equity .....	<u>\$ 17,882,104</u>	<u>\$ 14,533,525</u>

The accompanying notes are an integral part of these consolidated statements.

**INTELLICHECK, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES .....	\$ 3,598,296	\$ 3,838,963
COST OF REVENUES .....	<u>(521,835)</u>	<u>(769,048)</u>
Gross profit .....	3,076,461	3,069,915
OPERATING EXPENSES		
Selling, general and administrative .....	5,865,278	6,413,933
Research and development .....	1,916,107	2,405,593
Impairment of intangible assets .....	<u>1,375,422</u>	<u>-</u>
Total operating expenses .....	<u>9,156,807</u>	<u>8,819,526</u>
Loss from operations .....	(6,080,346)	(5,749,611)
OTHER INCOME (EXPENSE)		
Interest and other income .....	<u>59,841</u>	<u>14,930</u>
Net loss .....	<u>\$ (6,020,505)</u>	<u>\$ (5,734,681)</u>
PER SHARE INFORMATION:		
Loss per common share -		
Basic/Diluted .....	<u>\$ (0.48)</u>	<u>\$ (0.58)</u>
Weighted average common shares used in computing per share amounts -		
Basic/Diluted .....	<u>12,428,652</u>	<u>9,914,809</u>

The accompanying notes are an integral part of these consolidated statements.

**INTELLICHECK, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, December 31, 2015 .....	9,878,906	\$ 9,879	\$114,950,278	\$ (98,633,745)	\$16,326,412
Stock-based compensation expense (employees and directors).....	-	-	935,899	-	935,899
Issuance of common stock, net of costs....	1,200,000	1,200	1,776,750	-	1,777,950
Purchase and retirement of common stock	(979,114)	(979)	(1,095,629)	-	(1,096,608)
Exercise of stock options .....	345,127	345	389,534	-	389,879
Exercise of warrants .....	153,000	153	336,447	-	336,600
Vesting of restricted stock .....	120,634	121	(121)	-	-
Net loss .....	-	-	-	(5,734,681)	(5,734,681)
BALANCE, December 31, 2016 .....	10,718,553	\$ 10,719	\$117,293,158	\$(104,368,426)	\$12,935,451
Cumulative adjustment upon modified retrospective adoption of ASU 2016-09 ...	-	-	33,894	(33,894)	-
Balance after adoption of recent accounting pronouncement.....	10,718,553	10,719	117,327,052	(104,402,320)	12,935,451
Stock-based compensation expense (employees and directors).....	-	-	435,679	-	435,679
Issuance of common stock, net of costs....	4,168,750	4,169	8,508,692	-	8,512,861
Exercise of stock options .....	10,000	10	10,090	-	10,100
Exercise of warrants .....	63,500	63	139,637	-	139,700
Vesting of restricted stock .....	50,207	50	(50)	-	-
Shares forfeited in exchange for payment of withholding taxes .....	(1,764)	(2)	(4,231)	-	(4,233)
Net loss .....	-	-	-	(6,020,505)	(6,020,505)
BALANCE, December 31, 2017 .....	<u>15,009,246</u>	<u>\$ 15,009</u>	<u>\$126,416,869</u>	<u>\$(110,422,825)</u>	<u>\$16,009,053</u>

The accompanying notes are an integral part of these consolidated statements.

**INTELLICHECK, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss .....	\$ (6,020,505)	\$ (5,734,681)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization .....	412,351	434,291
Stock-based compensation expense .....	435,679	935,899
Change in provision for doubtful accounts .....	-	74,354
Deferred rent .....	(47,628)	(38,222)
Impairment of intangible assets .....	1,375,422	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable .....	(150,501)	582,492
(Increase) decrease in inventory .....	(14,774)	4,185
(Increase) decrease in other current assets .....	(52,051)	12,889
(Increase) in other assets .....	(5,883)	(1,498)
Increase (decrease) in accounts payable and accrued expenses .....	339,326	(262,496)
(Decrease) in deferred revenue .....	(175,128)	(247,631)
Increase in other long-term liabilities .....	158,407	-
Net cash used in operating activities .....	<u>(3,745,285)</u>	<u>(4,240,418)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment .....	(37,614)	(64,075)
Collection on note receivable .....	42,460	35,587
Net cash provided by (used in) investing activities .....	<u>4,846</u>	<u>(28,488)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from the issuance of common stock .....	8,512,861	1,777,950
Net proceeds from issuance of common stock from exercise of stock options .....	10,100	389,879
Net proceeds from the issuance of common stock from exercise of warrants .....	139,700	336,600
Purchase and retirement of common stock .....	-	(1,096,608)
Withholding taxes paid on vesting of restricted stock units .....	(4,233)	-
Net cash provided by financing activities .....	<u>8,658,428</u>	<u>1,407,821</u>
Net increase (decrease) increase in cash .....	4,917,989	(2,861,085)
CASH, beginning of year .....	<u>3,092,172</u>	<u>5,953,257</u>
CASH, end of year .....	<u>\$ 8,010,161</u>	<u>\$ 3,092,172</u>

The accompanying notes are an integral part of these consolidated statements.

# INTELLICHECK, INC.

## NOTES TO FINANCIAL STATEMENTS

### 1 NATURE OF BUSINESS

#### Business

Intellicheck, Inc. (the “Company” or “Intellicheck”) is a leading technology company that is engaged in developing, integrating and marketing threat identification and identity authentication solutions to address challenges that include retail fraud prevention, law enforcement threat identification, and mobile and handheld access control and security for the government, military and commercial markets. Intellicheck’s products include Retail ID™, the industry leading solution for preventing fraud in the retail industry; Age ID™, a smartphone or tablet-based solution for preventing sale of age-restricted products to minors; Law ID™, a smartphone-based solution used by law enforcement officers to identify and mitigate threats; and Defense ID®, a mobile and fixed infrastructure solution for threat identification, identity authentication and access control to military bases and other government facilities.

Intellicheck continues to develop and release innovative products based upon its rich patent portfolio consisting of over 25 patents.

#### Liquidity

For the year ended December 31, 2017, the Company incurred a net loss of \$6,020,505 and used cash in operations of \$3,745,285. As of December 31, 2017, the Company had cash of \$8,010,161 and an accumulated deficit of \$110,422,825. On August 4, 2017, the Company completed a public offering of 4,168,750 shares of its common stock, offered to the public at \$2.25 per share resulting in net proceeds to the Company of approximately \$8,578,000 after deducting underwriter’s discounts and commissions paid by the Company. Intellicheck intends to use these net proceeds for general corporate purposes including product development in key markets, the integration of new features into existing new products and expansion of its sales force and engineering personnel. Based on the Company’s business plan and cash resources, Intellicheck expects its existing and future resources and revenues generated from operations to satisfy its working capital requirements for at least the next 12 months.

However, if performance expectations fall short or expenses exceed expectations, the Company may need to secure additional financing or reduce expenses to continue operations. Failure to do so would have a material adverse impact on its financial condition. There can be no assurance that any contemplated additional financing will be available on terms acceptable, if at all. If required, the Company believes it would be able to reduce expenses to a sufficient level to continue as a going concern.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. (“Mobilisa”) and Positive Access Corporation (“Positive Access”). All intercompany balances and transactions have been eliminated upon consolidation.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. There were no cash equivalents held on December 31, 2017 and 2016.

#### Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company’s customers, current economic conditions and other factors that may affect customers’ ability to pay.

#### Inventory

Inventory is stated at the lower of cost or market and cost is determined using the first-in, first-out method. Inventory is primarily comprised of finished goods. As of December 31, 2017, most of our inventory related to Government and Commercial Identity products for intended near-term sales.



## INTELLICHECK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Long-Lived Assets and Impairment of Long-Lived Assets

The Company's long-lived assets include property and equipment, goodwill and intangible assets.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC topic 350 and ASC Topic 360 to determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

#### Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives ranging from three to ten-years using the straight-line method. Leasehold improvements are amortized utilizing the straight-line method over the lesser of the term of the lease or estimated useful life of the asset.

#### Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. Pursuant to ASC Topic 350, the Company tests goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances. Under guidance, the Company first assessed qualitative factors to determine whether it was necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

The Company performed its annual impairment test of goodwill in the fourth quarter for the years ended December 31, 2017 and 2016. For the years ended December 31, 2017 and 2016, the Company determined no impairment charge was required.

#### Intangible Assets

Intangible assets include trade names, patents and non-contractual customer relationships as described more fully in Note 5. The Company uses the straight-line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC Topic 360. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

As a result of a projected loss of revenue from certain customers moving to another platform along with a shift in the Company's marketing strategy for 2018, the Company performed a quantitative impairment test as of December 31, 2017 for the patents, trade names and customer relationships acquired in the Mobilisa acquisition. The Company utilized the income approach to test its patent and tradenames, specifically the Relief-from-Royalty method, which assumes that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. By acquiring the intangible asset, the user avoids these payments. As a result of the analysis, \$250,582 and \$287,928, respectively, of impairment was recorded due to the decline in the valuation of trade names and patents. The Company utilized the income approach to test its customer relationships, specifically the Multi-Period Excess Earnings Method, which estimates the cash flows attributable to the customer relationships, after considering the return associated with other contributing assets. As a result of the analysis, \$836,912 of impairment was recorded due to the decline in the valuation of the customer relationships. Application of the impairment test requires judgement, including determination of royalty rates, and projecting revenue attributable to the assets in order to determine fair value. These impairments, totaling \$1,375,422, are recorded as Impairment of Intangible Assets on our Consolidated Statements of Operations. No impairments were recognized during the year ended December 31, 2016.

As a result of its outlook on the Defense ID business, the Company will shorten the remaining useful life on these Defense ID intangible assets to two years.

No impairments were recognized during the year ended December 31, 2016.

## INTELLICHECK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Deferred Rent

The Company received certain rent abatements and incentives from landlord as an inducement to move into its New York office facility. The Company is amortizing these incentives on a straight-line basis over the period of its respective lease.

#### Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed.

Under the provisions of ASC Topic 605-25, "Revenue Arrangements with Multiple Deliverables," for multi-element arrangements that include tangible products containing software essential to the tangible product's functionality and undelivered software elements relating to the tangible product's essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

The Company also recognizes revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of the Company's technology are recognized as revenues in the period they are earned.

The Company also performs consulting work for other companies. These services are billed based on time and materials. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

The Company offers enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically one to three years.

#### Research and Development Costs

Research and development costs are charged to expense as incurred.

#### Shipping Costs

The Company's shipping and handling costs are included in cost of revenues for all periods presented.

#### Income Taxes

The Company accounts for income taxes under in accordance with ASC Topic 740, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. The Company has recorded a full valuation allowance for its net deferred tax assets as of December 31, 2017 and 2016, due to the uncertainty of the realizability of those assets.

**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Fair Value of Financial Instruments

The Company adheres to the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures”. This pronouncement requires that the Company calculate the fair value of financial instruments and include this additional information in the notes to financial statements when the fair value is different than the book value of those financial instruments. The Company’s financial instruments include cash and cash equivalents, accounts receivable, note receivable, accounts payable and accrued expenses. At December 31, 2017 and 2016, the carrying value of the Company’s financial instruments approximated fair value, due to their short-term nature.

Business Concentration and Credit Risk

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. The Company maintains cash with one financial institution. The cash equivalents consist of money market funds. The Company performs periodic evaluations of the relative credit standing of these institutions.

The Company’s sales are principally made to large retail customers, financial institutions concentrated in the United States of America and to U.S. government entities. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

During the year ended December 31, 2017, the Company had two customers that accounted for 26% of revenue. The revenue was associated with two commercial identity sales customers. These customers represented 27% of total accounts receivable at December 31, 2017. During the year ended December 31, 2016, the Company did not have any single customer account for 10% of revenue.

As of December 31, 2017, the Company had three suppliers to produce its input devices. The Company has modified its software to operate in windows based systems and can integrate with different hardware platforms that are readily available in the marketplace. The Company does not maintain a manufacturing facility of its own and is not dependent on maintaining its production relationships due to the flexibility of its software to run on multiple existing platforms.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The calculation of diluted net loss per share excludes all anti-dilutive shares.

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Numerator:		
Net Loss.....	\$ (6,020,505)	\$ (5,734,681)
Denominator:		
Weighted average common shares –		
Basic/Diluted.....	12,428,652	9,914,809
Net Loss per share –		
Basic/Diluted.....	\$ (0.48)	\$ (0.58)

The following table summarizes the common stock equivalents excluded from loss per diluted share because their effect would be anti-dilutive:

	<b>2017</b>	<b>2016</b>
Stock options.....	1,631,358	1,665,420
Warrants.....	471,801	535,301
Restricted stock.....	5,859	32,714
Total.....	2,109,018	2,233,435

## INTELLICHECK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Share Based Compensation

The Company accounts for the issuance of equity awards to employees in accordance ASC Topic 715 and 505, which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. This pronouncement establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees. Period compensation costs are included in selling, general and administrative and research and development expenses.

The Company recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period.

#### Comprehensive Loss

The Company's comprehensive loss is equal to its net loss for the years ended December 31, 2017 and 2016.

#### Segment Information

The Company adheres to the provisions of ASC Topic 280, which establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in financial statements issued to shareholders. Management has determined that it has only one reporting segment.

#### Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment consideration and valuation of goodwill and intangible assets, deferred tax valuation allowances, allowances for doubtful accounts, revenue allocation of multi-element arrangements and the fair value of options granted under the Company's share based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

#### Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. In addition, this guidance requires new or expanded disclosures related to the judgments made by companies when following this framework and additional quantitative disclosures regarding contract balances and remaining performance obligations. ASU No. 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company developed an implementation plan to adopt this new guidance, which included an assessment of the impact of the new guidance on our financial position and results of operations. The Company has completed its assessment and has determined that this standard will have no material impact on its financial position or results of operations, except enhanced disclosure regarding revenue recognition, including disclosures of revenue streams, performance obligations, variable consideration and the related judgments and estimates necessary to apply the new standard. On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and for all open contracts and related amendments as of January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 will be presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

## INTELLICHECK, INC.

### NOTES TO FINANCIAL STATEMENTS

On January 1, 2017, the Company adopted ASU No. 2016-09, *Improvements to Employee Share Based Payment Accounting* which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards, forfeitures and classification on the statement of cash flows. ASU 2016-09 allows the Company to make an accounting policy election to either estimate forfeitures or account for forfeitures as they occur. The Company has elected to account for forfeitures as they occur and is required to be applied on a modified retrospective basis. As a result, the Company recorded a cumulative effect adjustment to accumulated deficit and additional paid-in-capital in the amount of \$33,894 as of January 1, 2017 on the consolidated balance sheet.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (“ASU 2015-11”) which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and was effective for periods beginning after December 15, 2016, with early adoption permitted. Though the Company adopted this amendment on January 1, 2017, ASU 2015-11 had no material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* which simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update were effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. Though the Company adopted this amendment on January 1, 2017, ASU 2015-17 had no material impact on its consolidated financial statements as all deferred tax assets and liabilities have a full valuation allowance.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires that lease arrangements longer than 12 months’ result in an entity recognizing an asset and liability. The pronouncement is effective for periods beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the impact this guidance is expected to have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments* which would eliminate the diversity in practice related to the classification of certain receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017 for public entities with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The Company does not expect the implementation of this standard to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019, and early adoption is permitted. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”) which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. ASU 2017-09 will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts due from the Company's customers and are presented net of allowance for doubtful accounts. The components of accounts receivable, net are as follows:

	<u>2017</u>	<u>2016</u>
Accounts receivable .....	\$ 671,377	\$ 576,480
Less: Allowance for doubtful accounts .....	(18,750)	(74,354)
Accounts receivable, net.....	<u>\$ 652,627</u>	<u>\$ 502,126</u>

**4. PROPERTY AND EQUIPMENT**

Property and equipment are comprised of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Computer equipment .....	\$ 965,797	\$ 930,028
Furniture and fixtures .....	73,305	73,305
Leasehold improvements.....	43,249	174,619
Office equipment.....	578,846	577,002
Vehicles.....	-	30,676
	<u>1,661,197</u>	<u>1,785,630</u>
Less – Accumulated depreciation and amortization .....	1,449,595	1,514,854
	<u>\$ 211,602</u>	<u>\$ 270,776</u>

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to \$96,788 and \$118,727, respectively.

**5. GOODWILL AND INTANGIBLE ASSETS**

**Identifiable intangible assets**

The changes in the carrying amount of intangible assets for the year ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year .....	\$ 2,154,563	\$ 2,470,127
Deduction: Impairment charge .....	(1,375,422)	-
Deduction: Amortization expense .....	(315,563)	(315,564)
Balance at end of year .....	<u>\$ 463,578</u>	<u>\$ 2,154,563</u>

The following table sets forth the components of intangible assets as of December 31, 2017 and 2016:

	<u>Estimated Useful Life</u>	<u>As of December 31, 2017</u>		
		<u>Adjusted Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trade name .....	2 years	\$ 339,590	\$ (324,060)	\$ 15,530
Patents and copyrights .....	2-17 years	954,915	(711,781)	243,134
Non-contractual customer relationships .....	2-10 years	2,431,655	(2,226,741)	204,914
		<u>\$ 3,726,160</u>	<u>\$ (3,262,582)</u>	<u>\$ 463,578</u>

**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

	<b>As of December 31, 2016</b>		
	<b>Adjusted Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trade name .....	\$ 590,172	\$ (297,992)	\$ 292,180
Patents and copyrights .....	1,242,842	(644,231)	598,611
Non-contractual customer relationships .....	3,268,568	(2,004,796)	1,263,772
	<b>\$ 5,101,582</b>	<b>\$ (2,947,019)</b>	<b>\$ 2,154,563</b>

The following summarizes amortization of acquisition related intangible assets included in the statement of operations:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cost of sales .....	\$ 236,651	\$ 236,651
General and administrative.....	78,912	78,913
	<b>\$ 315,563</b>	<b>\$ 315,564</b>

The Company expects that amortization expense for the next five succeeding years will be as follows:

2018 .....	\$ 157,003
2019 .....	132,336
2020 .....	24,980
2021 .....	24,980
2022 .....	24,980

These amounts are subject to change based upon the review of recoverability and useful lives that are performed at least annually.

**Goodwill**

The excess of the purchase consideration over the fair value of the assets of acquired businesses is considered goodwill. Under authoritative guidance, purchased goodwill is not amortized, but rather it is periodically reviewed for impairment. The Company had goodwill of \$8,101,661 at December 31, 2017 and 2016. This goodwill resulted from the acquisition of Mobilisa, Inc. and Positive Access Corporation.

For the years ended December 31, 2017 and 2016, the Company performed its annual impairment test of goodwill in the fourth quarter. Under authoritative guidance, the Company can use industry and Company specific qualitative factors to determine whether it is more likely than not that impairment exists, before using a two-step quantitative analysis. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price. The Company performed the first step of the goodwill impairment test to identify potential impairment by comparing fair value of the Company to its carrying amount, including goodwill. The fair value was determined using the weighting of certain valuation techniques, including both income and market approaches which include a discounted cash flow analysis, an estimation of an implied control premium, in addition to the Company's market capitalization on the measurement date. The implied control premium selected was developed based on certain observable market data of comparable companies. The market capitalization is sensitive to the volatility of the Company's stock price. Although the Company believes that the factors considered in the impairment analysis are reasonable, changes in any one of the assumptions used could have produced a different result which may have led to an impairment charge. Any future impairment loss could have a material adverse effect on our long-term assets and operating expenses in the period in which impairment is determined to exist.

For the years ended December 31, 2017 and 2016, the Company determined that the fair value was more than its carrying amount and therefore the second step of the goodwill impairment test was not required.

Accumulated impairment charges on goodwill through December 31, 2017 and 2016 are \$30,085,862.

## INTELLICHECK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 6. NOTE RECEIVABLE

On August 31, 2015, the Company sold its wireless enterprise assets to the Jamestown S’Klallam Tribe (the “Buyer”) for total consideration of \$350,000 which consists of an upfront cash payment of \$30,000, the issuance of a promissory note totaling \$200,000 and contingent consideration up to a maximum of \$120,000 based on future earnings. The Company recognized a gain on the sale of approximately \$109,000 which was included in interest and other income for the year ended December 31, 2015. Total assets disposed include certain trade names associated with the wireless assets with a net book value of approximately \$65,000 and certain fixed assets with a net book value of approximately \$56,000. Any gain on contingent consideration will be recognized as it is earned.

Under the terms of the promissory note, monthly payments in the amount of \$3,683 including principal and interest at 4%, are to be made over a 60-month term expiring in August 2020. At December 31, 2017, the total note receivable was \$111,609, of which \$40,471 and \$71,138 is included in Other Current Assets and Notes Receivable, net of current portion, respectively on the Consolidated Balance Sheets. At December 31, 2016, the total note receivable was \$153,667, of which \$38,758 and \$114,909 is included in other Current Assets and Notes Receivable, net of current portion, respectively on the Consolidated Balance Sheets.

#### 7. DEBT

##### Revolving Line of Credit

On May 22, 2017, the Company entered into revolving credit facility with Northwest Bank (“Northwest”) and simultaneously terminated its revolving credit facility with Silicon Valley Bank. This new agreement allows for borrowings to the lesser of (i) \$2,000,000 or (ii) 95% of the balance in the Company’s money market account less \$250,000. The borrowings are secured by the Company’s existing deposit and money market accounts with Northwest. The facility bears interest at a rate consistent with Northwest’s money market account (0.65% at December 31, 2017) plus 3%. Interest is payable monthly and the principal is due upon maturity on May 22, 2018. As of December 31, 2017, there were no amounts outstanding under this facility and unused availability under this facility was \$2,000,000.

#### 8. ACCRUED EXPENSES

Accrued expenses are comprised of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Professional fees.....	\$ 78,552	\$ 73,999
Payroll and related.....	365,384	310,996
Severance payments to former officer.....	316,812	91,460
Other.....	54,602	43,502
	<u>\$ 815,350</u>	<u>\$ 519,957</u>

At December 31, 2017, the long-term portion of severance payments to a former officer was \$158,407 and is included in Other Long-term Liabilities on the Consolidated Balance Sheets.

#### 9. INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJA”), which significantly modified U.S. corporate income tax law. The TCJA contains significant changes to corporate income taxation, including but not limited to the reduction of the corporate income tax rate from a top marginal rate of 35% to a flat rate of 21% in 2018. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain, including to what extent various states will conform to the newly enacted federal tax law. The deferred tax assets and liabilities are measured using the enacted tax rates that the Company believes will apply in the years in which the temporary differences are expected to be recovered or paid. As a result, the Company remeasured the deferred tax assets and deferred tax liabilities to reflect the reduction in the enacted U.S. corporate income tax rate. This resulted in a decrease in our gross deferred tax assets and liabilities and corresponding valuation allowance of approximately \$1.5 million.



**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

The Company is subject to federal and state income taxes as regular (Subchapter C) corporation. As a result of continuing losses for tax purposes, the Company has historically not paid income taxes and has recorded a full valuation allowance against the net deferred tax asset.

The Company's deferred tax assets are primarily the result of net operating losses (or NOLs). The Company has recorded a valuation allowance against its net deferred tax assets at December 31, 2017 as it is more likely than not that not all of the deferred tax assets will be realized. The valuation is based on management's assessment that it is more likely than not the NOL carryforwards may not be realized in the foreseeable future due to objective negative evidence that the Company would not generate sufficient taxable income to realize the deferred tax assets.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 2,818,000	\$ 2,760,000
Stock-based compensation .....	81,000	121,000
Reserves .....	5,000	-
Intangible assets .....	26,000	-
Severance costs and deferred rent .....	130,000	24,000
Research and development tax credits.....	206,000	166,000
Total deferred tax assets .....	<u>3,266,000</u>	<u>3,071,000</u>
Deferred tax liabilities:		
Intangible assets .....	-	(628,000)
Depreciation .....	(33,000)	(48,000)
Reserves .....	-	(22,000)
Total deferred tax liabilities.....	<u>(33,000)</u>	<u>(698,000)</u>
Net deferred tax assets.....	<u>3,233,000</u>	<u>2,373,000</u>
Less: Valuation allowance.....	<u>(3,233,000)</u>	<u>(2,373,000)</u>
Deferred tax assets, net of allowance .....	<u>\$ -</u>	<u>\$ -</u>

There were no tax interest or penalties recorded in the consolidated financial statements for the years ended December 31, 2017 and 2016.

In March 2016, the Company completed an Internal Revenue Code Section 382 study which determined that a cumulative three-year ownership change in excess of 50% had occurred in March 2016 due to a share repurchase. As a result, the Company's available NOL was reduced from \$47.4 million to \$2.2 million during the first quarter of 2016. The Company's available NOL at December 31, 2017 was approximately \$11 million. The federal and state NOL's are available to offset future taxable income and expire from 2018 through 2037 if not utilized.

The Company files numerous tax returns in various jurisdictions. The Company is not currently under examination by any taxing authority, nor has the Company signed any waiver of the statute of limitations with any taxing authority. The Company remains open to examination by major taxing jurisdictions from 2013 to date. The Company believes there are no unresolved tax issues or tax claims likely to be material to its financial position.

The effective tax rate for the years ended December 31, 2017 and 2016 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances. In 2017, the valuation allowance increased approximately \$860,000 primarily related to an increase of the Company's NOLs and the impairment charge on the intangible assets offset by the reduction in the new corporate tax rate.

ASC Topic 740-10 requires evaluation of uncertain tax positions. As of December 31, 2017, the Company has no material uncertain tax positions.

**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**10. STOCKHOLDERS' EQUITY**

Series A Convertible Preferred Stock

In January 1997, the Board of Directors authorized the creation of a class of Series A Convertible Preferred Stock with a par value of \$.01. The Series A Convertible Preferred Stock is convertible into an equal number of common shares at the holder's option, subject to adjustment for anti-dilution. The holders of Series A Convertible Preferred Stock are entitled to receive dividends as and if declared by the Board of Directors. In the event of liquidation or dissolution of the Company, the holders of Series A Convertible Preferred Stock are entitled to receive all accrued dividends, if applicable, plus the liquidation price of \$1.00 per share. As of December 31, 2017, and 2016, there were no outstanding shares of Series A Convertible Preferred Stock.

Stock Options and Share Based Compensation

To retain and attract qualified personnel necessary for the success of the Company, the Company adopted the 2015 Omnibus Incentive Plan (the "Plan") covering up to 3,000,000 of the Company's common shares, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options, nonqualified stock options and restricted stock units. All the Plans prior to Company's 2015 Omnibus Incentive Plan have been closed. The Compensation Committee of the Board of Directors administers this Plan and determines the terms and conditions of options granted, including the exercise price. This Plan generally provides that all stock options will expire within ten years of the date of grant. Incentive stock options granted under this Plan must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the Company. This Plan also entitles non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors.

The Company uses the Black-Scholes option pricing model to value the options. The table below presents the weighted average expected life of the options in years. The expected life computation is based on the time to option expiration. Volatility is determined using changes in historical stock prices. The interest rate for periods within the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of share-based payment units was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values as follows:

	<b>Twelve Months Ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Valuation assumptions:		
Grant price .....	-	\$ 1.01 - \$2.79
Exercise price .....	-	\$ 1.01 - \$2.79
Expected dividend yield .....	-	0%
Expected volatility .....	-	96.77% - 98.05%
Expected life (in years) .....	-	5
Risk-free interest rate .....	-	0.94% - 2.10%

**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Stock option activity under the Plans during the periods indicated below is as follows:

	<b>Number of Shares Subject to Issuance</b>	<b>Weighted- average Exercise Price</b>	<b>Weighted- average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2015.....	1,901,298	\$ 1.46	4.51 years	
Granted .....	269,543	\$ 1.31		
Forfeited or expired .....	(160,294)	2.58		
Exercised .....	(345,127)	1.13		
Outstanding at December 31, 2016.....	<u>1,665,420</u>	<u>\$ 1.40</u>	3.62 years	
Granted .....	-	-		
Forfeited or expired .....	(24,062)	4.06		
Exercised .....	(10,000)	1.01		
Outstanding at December 31, 2017.....	<u>1,631,358</u>	<u>\$ 1.36</u>	1.70 years	<u>\$ 2,106,669</u>
Exercisable at December 31, 2017.....	<u>1,457,764</u>	<u>\$ 1.37</u>	1.56 years	<u>\$ 1,887,777</u>

The following is a summary of stock options as of December 31, 2017:

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number of Options</b>	<b>Weighted- average Remaining Life</b>	<b>Weighted- average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted- average Exercise Price</b>
\$ 1.15 to \$1.56	1,483,298	1.70 years	\$ 1.16	1,343,454	\$ 1.16
\$ 1.75 to \$2.79	56,000	3.49 years	\$ 2.03	22,250	\$ 2.31
\$ 3.12 to \$5.68	92,060	0.70 years	\$ 4.15	92,060	\$ 4.15
	<u>1,631,358</u>	<u>1.70 years</u>	<u>\$ 1.36</u>	<u>1,457,764</u>	<u>\$ 1.37</u>

The weighted-average fair value of the options granted during the year ended December 31, 2016 is \$0.96.

As of December 31, 2017, the Company had 878,425 shares available for future grants under the Plans.

**Restricted Stock Units**

The Company issues Restricted Stock Units ("RSUs") which are equity-based instruments that may be settled in shares of common stock of the Company. The Company issues RSUs to certain directors as compensation which vest with the passage of time. The vesting of all RSUs is contingent on continued board services.

The compensation expense incurred by the Company for RSUs is based on the closing market price of the Company's common stock on the date of grant and is amortized ratably on a straight-line basis over the requisite service period and charged to general and administrative expense with a corresponding increase to additional paid-in capital.

**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2015.....	67,077	\$ 1.56	\$ -
Granted .....	86,271	1.76	
Vested and Settled in Shares.....	(120,634)	1.60	
Canceled / Expired.....	-	-	
Outstanding at December 31, 2016.....	<u>32,714</u>	<u>1.89</u>	<u>26,010</u>
Granted .....	23,352	2.87	
Vested and Settled in Shares.....	(50,207)	2.31	
Canceled / Expired.....	-	\$ -	\$ -
Outstanding at December 31, 2017.....	<u><u>5,859</u></u>	<u><u>\$ 2.56</u></u>	<u><u>\$ -</u></u>

As of December 31, 2017, there was \$121,594 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options and restricted stock units, which is expected to be recognized over a weighted average period of approximately 1.3 years.

Share based compensation expense for the years ended December 31, 2017 and 2016 is as follows:

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Compensation cost recognized:		
Stock options .....	\$ 368,465	\$ 775,338
Restricted stock units .....	67,214	160,561
	<u><u>\$ 435,679</u></u>	<u><u>\$ 935,899</u></u>

Share based compensation is included in operating expenses as follows:

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
General and administrative .....	\$ 408,772	\$ 873,392
Research and development .....	26,907	62,507
	<u><u>\$ 435,679</u></u>	<u><u>\$ 935,899</u></u>

The Company has a net operating loss carry-forward as of December 31, 2017, and no excess tax benefits for the tax deductions related to share based awards were recognized in the statements of operations. Additionally, no incremental tax benefits were recognized from stock options exercised in 2017 that would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities.

All stock options have been issued with an exercise price that is equal or above the fair market value of the Company's Common Stock on the date of grant.

Warrants

All previously granted warrants were issued with an exercise price that was equal to or above the fair market value of the Company's common stock on the date of grant. As of December 31, 2017, the Company had 471,801 remaining warrants outstanding at exercise prices ranging from \$2.20 to \$8.00 through 2021. There were 63,500 and 153,000 warrants exercised at a price of \$2.20 during the years ended December 31, 2017 and 2016, respectively.

## INTELLICHECK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 11. ISSUANCE OF COMMON STOCK

On February 24, 2016, the Company entered into a stock repurchase agreement with two former directors, who were also members of management (the "Former Executives") for the repurchase of all 979,114 shares owned by the Former Executives of the Company's common stock for \$1,096,608. The transaction was finalized on March 4, 2016.

On June 15, 2016, the Company completed a public offering of 1,200,000 shares of its common stock and five-year warrants to purchase 600,000 shares with an exercise price of \$2.20 per share, at a combined public offering of \$1.75 per share and half-warrant. Net proceeds to the Company from this offering were approximately \$1,902,000 after deducting underwriting discounts and commissions paid by the Company. Direct offering costs totaling approximately \$124,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity. As part of the offering, there was an overallotment option for the underwriters to purchase up to 180,000 shares of common stock at a purchase price of \$1.63 per share. Through December 31, 2017, certain warrant holders exercised their right to purchase 216,500 shares of our common stock which resulted in net proceeds of approximately \$476,000.

On August 4, 2017, the Company completed a public offering of 4,168,750 shares of its common stock, offered to the public at \$2.25 per share. Net proceeds to the Company from this offering were approximately \$8,670,000 after deducting underwriting discounts and commissions paid by the Company. Direct offering costs totaling approximately \$157,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity.

#### 12. COMMITMENTS AND CONTINGENCIES

##### *Operating Leases*

The Company leases an office in Jericho, New York which expires on March 31, 2018. On December 27, 2017, the Company entered into an agreement to lease an office in Melville, New York which commenced on March 1, 2018 and expires on February 28, 2021. Future minimum lease payments under this lease agreement are as follows for the years ended December 31:

2018.....	\$	143,752
2019.....		83,948
2020.....		86,466
2021.....		14,481
Total .....	\$	<u>328,647</u>

Rent expense for the years ended December 31, 2017 and 2016 amounted to \$287,535 and \$406,308, respectively.

##### *Royalty and License Agreements*

The Company entered into an agreement with a former officer of the Company during 1996 to license certain software. The agreement stipulated, among other provisions, that the officer would receive royalties equal to a percentage of the Company's gross sales. This agreement was terminated in May 1999 and was superseded by a new agreement which calls for payment of royalties of 0.005% on gross sales from \$2,000,000 to \$52,000,000 and .0025% on gross sales more than \$52,000,000 pertaining to those patents on this former officer was identified as an inventor. Cumulatively through December 31, 2017, total fees paid under this agreement amounted to approximately \$2,000.

##### Legal Proceedings

The Company is not aware of any infringement by our products or technology on the proprietary rights of others.

The Company is not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on its business.

## INTELLICHECK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Severance and Change-in-Control Agreements

On November 29, 2017, Bill White, the Chief Financial Officer and the then Interim Chief Executive Officer entered into a severance agreement with the Company (the “Agreement”). The Agreement provides that in consideration of his services and pursuant to the Agreement, in the event that Mr. White’s employment is terminated without “cause” (as such term is defined in the Agreement), Mr. White will receive a 24-month continuation of salary payments, continuation of certain eligible medical benefits under the COBRA program, and a lump sum payment equal to any quarterly bonus target applicable during the quarter of termination plus any prior completed quarterly bonus which has not yet been determined (if any). In addition, the Agreement provides that upon such termination without Cause, the Company will accelerate the vesting of all of Mr. White’s outstanding but unvested stock options or other equity incentives. This Agreement replaces a severance agreement, as amended, initially executed by Mr. White and the Company on September 30, 2014 and amended May 30, 2017 (the “Original Agreement”). The Original Agreement, as amended, provided equivalent severance benefits as provided in the Agreement. The Original Agreement expired by its terms September 30, 2017.

On October 4, 2017, Dr. William Roof, the Company’s President and Chief Executive Officer retired from the Company at the request of the board of directors (the “Board”). The parties have entered into a separation and consulting agreement dated as of November 2, 2017 (the “Agreement”). Pursuant to the Agreement, the Company may contact Dr. Roof to provide consulting services and he will provide consulting services at the Company’s request to ensure a smooth and effective transition of management and business affairs. In consideration of these services and to fulfill the Company’s obligations under Dr. Roof’s employment agreement with the Company, Dr. Roof will receive aggregate cash payments of \$500,000 over a 20-month period together with reimbursement of certain vision and dental benefit premiums. The Company does not anticipate this to be a significant effort and therefore has accounted for these payments as severance on the date of separation. In addition, the board of directors of the Company has extended the expiration date of Dr. Roof’s options to purchase Company’s common stock to six months from the Separation Date. The Board immediately appointed Bill White, the Company’s current Chief Financial Officer, as its Interim President and Chief Executive Officer. At December 31, 2017, the total severance liability was \$475,219, of which \$316,812 and \$158,407 is included in Accrued Expenses and Other Long-term Liabilities, respectively on the Consolidated Balance Sheets.

On May 19, 2016, Mr. Robert Williamsen, the Company’s Vice President and Chief Revenue Officer departed the Company, via mutual consent, to pursue other interests. Pursuant to Mr. Williamsen’s employment agreement with the Company, Mr. Williamsen will receive a payment of his monthly salary, subject to all applicable withholdings, for a period of 12 months following May 19, 2016, which the first payment commenced on July 7, 2016, and partial reimbursement for continued health, dental, and vision coverage through August 2016. Pursuant to the terms of Mr. Williamsen’s stock option agreements, Mr. Williamsen exercised his vested stock option awards. At the time of separation, the Company immediately recorded an expense for this one-year base salary of \$225,000 and accelerated his portion of the Company’s stock-based compensation of approximately \$149,000. At December 31, 2016, the remaining amount of this severance liability of approximately \$91,000 is included in Accrued Expenses on the Consolidated Balance Sheets.

Each of the agreements requires the executive to devote substantially all his time and efforts to our business and contains non-competition and nondisclosure covenants of the officer for the term of his employment and for a one-year period thereafter. Each agreement provides that we may terminate the agreement for cause.

#### 401(k) Plan

The Company has a retirement savings 401(k) plan. The plan permits eligible employees to make voluntary contributions to a trust, up to a maximum of 35% of compensation, subject to certain limitations. The Company has elected to contribute a matching contribution equal to 50% of the first 6% of an eligible employee’s deferral election. The Company may also make discretionary contributions, subject to certain conditions, as defined in the plan. The Company’s matching contributions were \$45,441 and \$27,163 for 2017 and 2016, respectively. The plan assets were approximately \$2.2 million at December 31, 2017.

**INTELLICHECK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**13. RELATED PARTY TRANSACTIONS**

The Company's subsidiary, Mobilisa, Inc. leased office space from a company ("Lessor Company") that is wholly-owned by two former directors, who were also members of management. The Company entered into a 10-year lease for the office space ending in 2017. The base annual rent for this facility was \$96,010 was subject to annual increases based on the increase in the CPI index plus 1%. On February 24, 2016, the Company and the Lessor Company entered into a lease amendment agreement reducing the space under this lease that took effect on March 31, 2016 thereby closing its office facility and occupied storage space that expired on December 31, 2016. As a result of this amended agreement, the Company made a \$100,000 termination payment to the Lessor in full satisfaction the Company's remaining obligations under its original lease. For the years ended December 31, 2017 and 2016, total rent payments for this facility were \$0 and \$124,001 (including this termination payment), respectively.

On February 24, 2016, the Company entered into a stock repurchase agreement with these Executives for the repurchase of all 979,114 shares owned by the Executives of the Company's common stock for \$1,096,608. The transaction was finalized on March 4, 2016.

**14. QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table sets forth unaudited financial data for each of the Company's last eight fiscal quarters.

	<b>Year Ended December 31, 2017</b>				<b>Year Ended December 31, 2016</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	(Dollars in thousands, except per share data)							
<b>Income Statement Data:</b>								
Revenues.....	\$ 713	\$ 951	\$ 967	\$ 967	\$ 951	\$ 940	\$ 1,214	\$ 734
Gross profit.....	603	747	862	864	788	749	946	587
Loss from operations .....	(940)	(1,101)	(1,083)	(2,957)	(2,149)	(1,779)	(730)	(1,092)
Net loss .....	(937)	(1,099)	(1,075)	(2,910)	(2,143)	(1,775)	(727)	(1,090)
<b>Net loss per common share:</b>								
Basic .....	\$ (0.09)	\$ (0.10)	\$ (0.08)	\$ (0.19)	\$ (0.22)	\$ (0.19)	\$ (0.07)	\$ (0.10)
Diluted .....	\$ (0.09)	\$ (0.10)	\$ (0.08)	\$ (0.19)	\$ (0.22)	\$ (0.19)	\$ (0.07)	\$ (0.10)

Due to rounding, quarterly net loss per share may not add up to the total net loss for the year.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 22, 2018

INTELLICHECK, INC.

By: /s/ Bryan Lewis

Bryan Lewis  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

INTELLICHECK, INC.

Date: March 22, 2018

By: /s/ Bryan Lewis

Bryan Lewis  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: March 22, 2018

By: /s/ Bill White

Bill White  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: March 22, 2018

By: /s/ Michael D. Malone

Michael D. Malone, Chairman and Director

Date: March 22, 2018

By: /s/ Emil R. Bedard

Lt. Gen. Emil R. Bedard, Director

Date: March 22, 2018

By: /s/ Jack A. Davis

Jack A. Davis, Director

Date: March 22, 2018

By: /s/ William P. Georges

William P. Georges, Director

Date: March 22, 2018

By: /s/ Guy L. Smith

Guy L. Smith, Director

Date: March 22, 2018

By: /s/ David E. Ullman

David E. Ullman, Director



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements of Intellicheck, Inc. on Form S-1 (333-201168), S-3 (No. 333-214193) and Form S-8 (Nos. 333-211298, 333-204308, 333-151097 and 333-143448) of our report dated March 22, 2018, on our audits of the consolidated financial statements as of December 31, 2017 and 2016 and for each of the years then ended, which report is included in this Annual Report on Form 10-K to be filed March 22, 2018.

*/s/ EisnerAmper LLP*

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EISNERAMPER LLP  
Iselin, New Jersey  
March 22, 2018

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bryan Lewis, certify that:

1. I have reviewed this annual report on Form 10-K of Intellicheck, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15I and 15d-15I) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 22, 2018

/s/ Bryan Lewis

Name: Bryan Lewis

Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bill White, certify that:

1. I have reviewed this annual report on Form 10-K of Intellicheck, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15I and 15d-15I) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 22, 2018

/s/ Bill White

Name: Bill White

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Intellicheck, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the year ended December 31, 2017 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 22, 2018

/s/ Bryan Lewis

Name: Bryan Lewis

Title: President and Chief Executive Officer

Dated: March 22, 2018

/s/ Bill White

Name: Bill White

Title: Chief Financial Officer

**The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.**